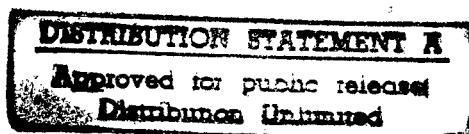




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NATIONAL AFFAIRS, POLICY

Making State-Owned Enterprises More Competitive

92CE0054A Chongqing GAIGE [REFORM] in Chinese
No 4, 4 Jul 91 pp 42-49

[Article by Yuan Baohua (6678 1405 5478): "An Examination of the Problem of Greater Invigoration of Large- and Medium-Sized State-Owned Enterprises"]

[Text] The problem of greater invigoration of enterprises, particularly greater invigoration of large and medium size state-owned enterprises, was raised as long ago as following the Third Plenary Session of the 11th Party Central Committee. Furthermore, a series of documents from both the Central Committee and the State Council set forth principles and specifics for their invigoration. In particular, *CPC Decisions on Economic System Reform*, which the Third Plenary Session of the 12th Party Central Committee passed, noted explicitly that the key to economic system reform lay in greater invigoration of large- and medium-sized enterprises, especially large- and medium-sized industrial enterprises under ownership of the whole people. In 1988, the National Party Congress passed and promulgated the *Code For Industrial Enterprises Under Ownership of the Whole People*, which provided a legal definition of the position and role of enterprises in the national economy. Following the 4 June disturbances of 1989, a resolution of the Fifth Plenary Session of the 13th Party Central Committee raised once again the issue of greater enterprise vitality. In the process of improving the economic environment and rectifying the economic order, and during reform and opening to the outside world in particular, the need for greater invigoration of enterprises was reiterated time and time again. At the conclusion of the National Economic Work Conference in September 1990, both Comrades Jiang Zemin and Li Peng once again emphasized the importance of this matter in speeches they delivered. In a Central Committee suggestion for drawing up a 10-Year Plan and a Five-Year Plan that the Seventh Plenary Session of the 13th Party Central Committee approved, one special provision was on the topic of continued strengthening of enterprises, particularly the vitality of large- and medium- sized state-owned enterprises, as a key link in the intensification of economic system reform. This provision had the nine following ingredients: The first was the contract system; the second was the separation of government administration from enterprise management and the separation of ownership from operation; the third was perfection of the depreciation system and the enterprise retained profits system; the fourth was the harnessing of the "three reckless actions"; the fifth was the development of enterprise blocs; the sixth was the intensification of enterprise leadership system and operating mechanism reform to improve enterprise management; the seventh was trying out the leasing system and

the share system; the eight was administration of state-owned assets; and the ninth pertained to the industry-wide contracting system. The communique of the Seventh Plenary Session also twice referred to the invigoration of large- and medium-sized enterprises. Thus, in the more than a decade that has passed since the Third Plenary Session of the 11th Party Central Committee, throughout the period of the Third Plenary Session of the 12th Party Central Committee and the Fifth Plenary Session of the 13th Party Central Committee, and particularly during the Seventh Plenary Session, this matter has become increasingly clear. Both the CPC Central Committee and the State Council have consistently devoted serious attention to the improvement of enterprises, particularly enhancement of the vitality of large- and medium-sized state-owned enterprises. Their highlighting of this issue once again is a recognition of its urgent significance and its important long-range significance. It is a problem central to reform that must be solved. Why is this? It is because large- and medium- sized state-owned enterprises are an important mainstay of our socialist system. They are a primary force in the development of the national economy; they are the main source of our country's wealth; and they are an important factor in the stability of our society. In recent years, the situation that existed for a time in enterprises, particularly large- and medium-sized state-owned enterprises, of "much responsibility, little authority, many bosses, and heavy burdens" began to change. However, it now appears that this situation is becoming more and more serious in some places. Some comrades say that basically no change has occurred. Since development is uneven between one jurisdiction and another, and since circumstances differ, it is impossible to generalize; however, reports during the past two years, and particularly since last year, suggest that the situation that our enterprises face and the conditions in which they find themselves are still fairly difficult. Some comrades capsule them in the following sentence: "Taxes are heavy; interest rates are high; depreciation is low; equipment is old; assessments are many; and retained profits are small." Two years of improving the economic environment and rectifying the economic order have scored very great achievements; however, for some deeprooted reasons that have existed for a long time regarding accumulations, and as a result of some new problems that have emerged in the course of improving the economic environment and rectifying the economic order, the tasks to be achieved in improving the economic environment and rectifying the economic order are still daunting. The situation that enterprises face is fairly grim. The main difficulties that enterprises currently face are as follows: (1) A market slump with weak demand, (2) products accumulating in inventory and a shortage of funds, (3) weak technological transformation and slow structural readjustment, (4) insufficient work for some factories, and (5) a slide in economic returns. Many comrades, particularly comrades involved in theoretical work, are not entirely in agreement about what constitutes economic returns, but in terms of the general understanding of the meaning of profits, returns

have truly fallen off. The reasons for the decline in returns are fairly complex, but the most basic ones are the economic overheating of the past several years, structural imbalances, and too much attention to speed and not enough attention to returns. This includes reasons related to irrational structure, an as yet an unstraightened out system, insufficient attention to scientific and technical progress, internal enterprise management, and policies. For example, policies are not integrated. Some have not been put into effect or are inconsistent, or some policies are even amiss in some respects. Analysis of these reasons shows where the returns go. Some returns are swallowed up in taxes. This is termed "converting profits into taxes." Another portion is eaten up by high prices for raw and processed materials, power, and transportation. This is termed "converting profits into expenditures," profits being taken away by payments of all sorts including wage adjustments, etc. Policy problems are also fairly numerous. The problem now is that given such a grim situation and being mired in such difficulties, what can be done to invigorate enterprises? For some enterprises the question is not one of "enlivening" but of "rescuing" greater vitality for enterprises, particularly for large- and medium-sized state-owned enterprises, will require the adoption of resolute measures with regard to the external environment and internal management to increase their self-development, self-transformation, and self-limitation capabilities.

The guiding thought in improving enterprises' external environment is a clear one; it requires that enterprises truly become socialist commodity producers and operators who make decisions about their operations, be responsible for their own profits and losses, and accumulate capital for themselves. It requires a bolstering of enterprises' self-development, self-transformation, and self-limitation capabilities. This is what comrades in enterprises mean when they frequently say that now we must be given a blood transfusion, but even more importantly we hope that actions will be taken to increase our own ability to make blood. Can this ability of enterprises be enhanced? The answer is discussed under eight headings below:

The first and most important, most crucial, and most central provision is the separation of government administration and enterprise management for a separation of ownership and operation. Only by separating government administration from enterprise management for a separation of ownership and operation can decision making authority be truly vested in enterprises. Both the CPC Central Committee and the State Council have many times issued regulations on enterprises' decision making authority, but they have issued them only to rescind them, vacillating back and forth with the result that enterprises are rather disgruntled. When they had a lot of decisionmaking authority, some enterprises could themselves approve the building of a production line, but when they had little decision making authority, even the building of a 20 square meter house had to be

approved by higher authority. Only through a determined separation of the functions of government and enterprises and a proper distinction between ownership rights and operating authority can enterprises truly gain decisionmaking authority for themselves. The key to greater enterprise reform lies in the invigoration of enterprises, and guaranteeing that enterprises make their own decisions is central to this invigoration. This means that improvement of the status of enterprises, and changing enterprises' status requires that enterprises be freed from their status as government chattels. Earlier we called for the introduction into large- and medium-sized state-owned enterprises of the operating mechanism used in township and town enterprises. This idea came under criticism for a time. The operating mechanism of township and town enterprises was regarded as a violation of the law and discipline, speculative and profiteering, and a confusing mess. At a conference early in 1991, we specifically requested Comrade Lu Guanqiu [7627 0385 3808] to talk about the operating mechanism used in township and town enterprises, and how it invigorated those enterprises. He explained it very well, and after hearing him people were very greatly encouraged. His enterprise did not rely on bribery and gift-giving to find sales outlets for its products; instead, it depended on quality, low costs, and premium service to open markets. His operating mechanism consisted of the payment of 20 percent of profits to the township government each year. Beyond this, the township government did not concern itself with his normal operations. Why should the township and town enterprise operating mechanism be introduced into large- and medium-sized state-owned enterprises? For the purpose of separating government administration from enterprise management in the separation of ownership from operation. To open a production line, he had to figure out a way to pay wages, and he had to appoint a cadre. He had full decisionmaking authority about these matters. After Comrade Lu Guanqiu spoke, several comrades from large- and medium-sized state-owned enterprise who were in the audience said that if we were to put these provisions into effect, we would have full vitality. Government would not meddle in enterprises' normal operations. Therefore, the operating mechanism of township and town enterprises is a mechanism that provides full operational decision making authority; it is a competition mechanism; and it is a mechanism that permits autonomy in operation and responsibility for one's own profits and losses. In China's state-owned enterprises, however, decisionmaking authority on all matters, large- and small, is at the top. The more one runs an enterprise, the more it becomes like the practice of diplomacy "vested authority being limited," with no way of moving ahead with the task at hand. However, if we are really to invigorate enterprises and increase vitality in large- and medium-sized state-owned enterprises, we will have to take the path of separating government administration from enterprise management, distinguishing between ownership and operation. At one time, when some people heard that the township and town enterprise

operating mechanism was to be introduced into large- and medium-sized state-owned enterprises, they had a good laugh. They thought it was a joke. But after thinking about it carefully, and after analyzing just what mechanism is used in township and town enterprises, you become aware and you warm to it. This is because a problem of a need to "free from bondage" still exists in our large- and medium-sized state-owned enterprises right up to the present time. Large- and medium-sized enterprises possess a solid foundation and more capabilities than other enterprises. Some people say they are like lions, but when they are bound hand and foot and in a fight with monkeys, how can they be expected to win. This is the first point.

The second is fewer state benefits and a reduction in money collected for a lightening of enterprises' burdens and the husbanding of state financial resources. We used to term it "turning on the water to rear fish," but Comrade Jiang Zemin states the issue as having to make the "cake" larger. I think this is the best method, and the smartest and most effective method. By making the cake larger, everyone can get more. The Capital Iron and Steel Complex is an example. Comrade Jiang Zemin said the present government financial distress stems largely from the low returns of large- and medium-sized state-owned enterprises. The only way to solve the government's financial difficulties is to broaden sources of income and reduce expenditures. One has to give first in order to get. I believe that by giving nothing more than decision-making authority, the sources of income can be increased. Invigorating large- and medium-sized state-owned enterprises requires resolute action coupled with the determination to plug loopholes that drain away profits, and the determination to do battle with the "three reckless actions." In the past, major examinations were made of only financial affairs, tax receipts, and prices, but in 1990, the "three reckless actions" began to be looked into. This is good news. But in solving the problem of reckless assessments and reckless collection of fees, whose assessments and collections are considered reckless? The city's, district's, or individual street's? There has to be a standard as to which ones count and which ones do not.

Third is consistent policies, continuation and perfection of the contract system, and correct handling of the relationship between the state and enterprises. Recently Beijing City proposed the need to study the experiences of the Capital Iron and Steel Complex as a means of invigorating large and medium size enterprises. I feel this is a good suggestion. During the present improvement of the economic environment and rectification of the economic order, while harnessing inflation and economic overheating, and while readjusting the economic structure, money became tight and markets slumped somewhat. Some enterprises are on their knees as a result of their difficulties, but a number of enterprises, of which the Capital Iron and Steel Complex is an example, have expanded in the midst of difficulties. Since the institution of the contract system, the Capital Iron and Steel

Complex has seen a 20 percent per year increase in profits. Recently comrades at Capital Iron and Steel said that plans called for a continued 20 percent increase in 1991. This is no simple matter. Although their base figure becomes higher and higher, they still hold to a 20 percent increase. In order to continue in this direction, the complex will have to mobilize all staff members and workers in every position to work every day, accumulating bit by bit, little by little, for 365 days before finally accumulating this 20 percent increase. I feel this is the only way to be able to improve enterprises' self-development, self-transformation, and self-limitation capabilities. Nowadays some enterprises are inclining toward the individual in the distribution of their earnings. An enterprise such as the Capital Iron and Steel Complex is able to distribute more, yet it does not distribute a lot. It does not use up all the bonus funds it has available. Instead it leaves some leeway, and it tilts in the direction of production and toward increased accumulations in its distributions. The most important reason for the Capital Iron and Steel Complex's series of achievements in high speed development, high returns, a high level of technology, and modern management to make a very great contribution to the country is the state policy that allows it to contract. This policy has enabled Capital Iron and Steel to improve its self-development, self transformation and self limitation capabilities. What is needed is consistent policies, including continuation and perfection of the plant manager responsibility system, in the diligent implementation of the National Party Congress-ratified "Code For Industrial Enterprises Under Ownership of the Whole People."

Fourth is vigorous readjustment of the economic structure. This is the way to get at the root of problems, the product mix of enterprises, in particular, as well as readjustment of the way enterprises are structured. Matters must be handled in accordance with industrial policies. Increased investment should be used to carry out key tilt policies that strengthen basic industries and the building of basic facilities. In the readjustment of holdings, a policy of optimum allocation of key production elements should be pursued, some enterprises changing their lines of production, merging, and forming partnerships to develop enterprise blocs for specialized cooperation rather than try to do everything no matter how small or how large.

Fifth is diligent enlivening of commodity circulation and restructuring of commodity circulation procedures to demolish the various kinds of blockading that exist. It now appears that not only is one area blockading another, but one industry is also blockading another. Some units have issued instructions that you may only use things produced by this firm; things produced by other firms must be inspected by us. Protectionism is becoming increasingly worse. What is protectionism? It is protection of what is backward and what does not help our economic development, does not help maintain normal economic ties, and does not help build a unified nationwide market. Our advantage is a large market of

1.1 billion people. If you divide it up, what advantage is there? The State Council has already taken a series of actions to improve unified market management that must be further firmly implemented, including solution to the problem of "triangular debt." "Triangular debt" has to be treated as a special problem.

Sixth is vigorous support for enterprises' technological transformation to increase enterprises' reserve strength for development. The state must seize the fine opportunity that exists today to take resolute action in selecting some important technological transformation projects. If it fails to act, the opportunity will be lost. I believe there are some water conservancy projects, some communications and transportation projects, and some raw and processed materials production enterprise projects requiring major technological transformation. In all cases, we should seize the opportunity to use our plentiful surplus labor and to use the processed steel, lumber, and cement on hand in warehouses to do these things. This is a better use for them than leaving them in warehouses. As of the end of November 1990, our warehouses contained 28.14 million tons of processed steel, the equivalent of a 275 day supply. However, in a country like Japan that uses so much steel, only a 51-day supply is kept on hand, and Hong Kong has only a 75-day supply on hand. We, however, have a 275-day supply. Never mind cutting the amount by 200 days, simply by cutting it by 55 days 10 billion yuan can be saved. Why not use the surplus labor and the materials in warehouses to perform some important technological transformation projects that help develop the national economy? The State Council has already taken some actions in this regard such as launching work-relief programs to help the needy, carrying out some highway construction projects, etc. Technological transformation of enterprises will require investment, meaning funds will be needed. It now appears that once fixed assets have been appraised, depreciation rates should be increased, and that no taxation will be needed for either major overhaul depreciation or basic depreciation. The Japanese are smarter than we in permitting exemption from taxation only as long as the money is used for technological transformation. Of course, allowances must be made in view of the government's financial difficulties, but all the same, we cannot continue to consume capital. If we continue consuming it, ultimately enterprises will really collapse. Second, is the need to increase enterprises' retained profits to assure funds for the development of production. Third is the lowering of interest rates on technological transformation loans. In principal, the rate should be such that enterprises can afford repayment and can plan on benefits. If there is no benefit for an enterprise and it cannot repay the loan, who would want to carry such a heavy debt! Ultimately, the national economy will simply shrink. Fourth is the need to issue bonds, and share certificates may also be issued following approval. Views differ on this matter. I believe it should be tried. Some enterprises that raised funds for major technological transformation finished the task smoothly and have now repaid the money.

Seventh is the need to carry reform further, including enterprise reform, plan reform, fiscal, tax collection, financial, labor, wage, foreign trade, business, materials, and price reform, etc. The sooner the two-track price system is merged to a single track the better. Of course, too much speed right now is not desirable either, but can we not resolve to do this within three to five years? By maintaining the annual retail price index increase below double digits each year, this problem can be solved within three to five years. Unless this problem is solved, chaos will ensue in the commodity circulation field. This will cause the spread of unhealthy tendencies, and it will also create inequitable distribution in society. In addition, further opening to the outside world is needed. As some comrades say, selling a single machine abroad is easy, but to go outside the country to provide service is difficult. When something goes wrong with a customer's machine, the customer sends a telegram asking that someone be sent to fix it, but it may take three to five months to get approval to send someone abroad, and even then procedures may not be complete. I feel that if we really want to break into world markets, without attendant reforms and attendant reforms on matters abroad in a further opening to the outside world, we will not succeed. Unless we do so, we will only isolate ourselves and tie ourselves down, and also only give businessmen in Taiwan and Hong Kong the opportunity to earn big money. This is because they have the freedom to travel back and forth to solve problems, and they also earn money. Situations of this kind are very numerous; I am only citing an example. In short, in the process of carrying reform further and opening further to the outside world, the formulation of policies, the drawing up of plans, and the enactment of certain measures, must all help invigorate enterprises. If state-owned enterprises are controlled too tightly and too rigidly, they will ultimately shrivel and have no vitality. This would be an extremely dangerous situation.

Eighth is greater macroeconomic regulation and control ability. This is an extremely important provision. During the period prior to improving the economic environment and rectifying the economic order, some problems appeared in the operation of the national economy, most important of which was the feebleness of macroeconomic regulation and control. In dealing with this problem, we must follow a socialist orientation, maintain a planned commodity economy, regard the entire nation as a chessboard, and not go off in separate directions. We must demolish the effects of several thousand years of feudal small-scale production. Doing this will require applying policy guidance and applying economic methods, particularly the role of economic levers, as well as the role of information guidance. In many places, particularly those where the further down the line they are, the more their eyes are closed and their ears plugged, and information is not readily available. When they get the news that a product is selling well for high profits, they get to work right away, but by the time they have produced it, it is long since out of date. It has become a product that does not sell well and accumulates

in inventory-causing losses. This is the way that duplicatory building of plants comes about. Thus, guidance is needed in the form of both policy and information. At the same time, economic means and economic levers have to play a role. Plan regulation plays a very great role in this regard. For a long time, we had nothing but command plans. Macroeconomic control units were able to control the "main force" consisting of large- and medium-sized state-owned enterprises, but they did not know what to do about the "guerrillas." The State Council has suggested a slogan that goes, "the more control, the less invigoration." This was directed at the need to control some large construction projects and major policies while removing restraints on small ones to invigorate them. Later on, this was misconstrued. In the minds of some people who are accustomed to power playing a role, the mention of control over large matters is converted into controlling large -and medium-sized enterprises. Consequently, large- and medium-sized enterprises lack vitality. Now, it appears, large enterprises certainly do have to be controlled, but they also have to be invigorated. Small enterprises have to be controlled too, and they want to be controlled, but while strictly controlling them, they should not be controlled to death. This kind of deftness is difficult to master. In the past, frequently there was a sudden leaning in one direction only to lean suddenly in the other, or to simply wash one's hand of the entire matter, leading to a sudden descent into chaos. A clean-up followed the chaos with the institution of stifling control. Thus, control became stifling, but relaxation of control resulted in chaos, round and round. It appears legislation is needed and that matters have to be handled according to law. The quality of our macroeconomic control and macroeconomic supervisory corps needs improvement for the building of a national macroeconomic regulation and control system that is truly able to exert macroeconomic regulation and control and also permit enterprises to have full vitality. This is our only hope.

In addition to the above eight provisions, there is yet another that has to do with the overall climate including things like the social atmosphere, the building of clean government, hard work and thrift, self-reliance, ideological education, professional ethics, etc., all of which are in the realm of creating a fine external atmosphere for enterprises. The foregoing pertain to the issue of improving the external environment for enterprises.

The following section discusses improved internal management of enterprises, the intensification of internal reform in enterprises, keeping one's eyes turned inward for the creation of a fine microenvironment and microclimate.

First, enterprises must have good morale. This is another way of saying that when our enterprises are facing hardships, they must dare to accept challenges and take the initiative in going all out to get ahead. As the masses say: "Hardships, hardships; hardships at home are the worst kind; deliverance, deliverance; outside lie avenues to sales." Many enterprises are just this practical; this is

the summation of their practical experiences. Other enterprises say: "So long as there is no slide in morale, there are always more solutions than there are problems." The experience of numerous enterprises that have fought their way out of difficulties attest to this point. This requires that our enterprises attend to the building of both material and spiritual civilization, that they build leadership teams that are completely united and pugnacious, that they have a staff member and worker corps that can stand up to hard knocks, meaning a staff member and worker corps that has ideals, morals, education, and discipline. This requires improvement of enterprise leadership teams, raising the quality of the staff member and worker corps, party and government bodies united in cooperation, better staff member and worker ideological and political work, and full arousal of the fervor of all staff members and workers to seize opportunities and accept challenges.

Second is the need for a correct operating mentality. When we convened the National Conference on Wages, Depreciation, Fuel, Taxes, Materials Supply, and Management [gongjiao huiyi 1562 0074 2585 6231] in Tianjin in early 1982, a proposal was made to "change track and change mode." Since that time, a full nine months have passed, but given the past overheating of the economy, it will be difficult to do this. Naturally, some things have been done, but many things have not been done. This year has been termed the "quality, variety, and returns year." Quality first and varieties first was raised by Chairman Mao in 1958. At that time the quality of smelted iron and steel was poor when he called for quality first and variety first. I remember that ANSHAN RIBAO published an editorial at that time whose headline read, "Quality First, Variety First." More than 30 years have passed since then. Formerly people said that "when radishes are selling fast, one need not wash the dirt off of them," and "the emperor's daughter does not worry about getting married." Talk about quality first and variety first seemed a little inappropriate and not realistic. It was all empty talk no matter how long it went on. Today things are different. The market slump and the shortage of funds have forced enterprises to compete in the merciless market. Today the call for quality first and variety first has stirred interest. It is for this reason that we must correctly handle the relationship of size and speed to quality and returns. Development of the national economy, and building of a four modernizations socialist country must be done at a certain speed and on a certain scale, but only so long as quality is improved and returns improved. The Fifth Plenary Session of the 13th Party Central Committee summarized the lessons of this experience and urged against being anxious for success. At the same time it set a policy of continuing the sustained, steady, and coordination development of the national economy, and the need for resolutely taking the road of economic development that required quality and returns. This means it is necessary to change from extensive to intensive operation. At the same time, we must take the road of self-reliance, arduous work, and pioneering efforts.

Third is the need to look inward, to conserve, and to tap potential. Our enterprises waste quite a lot. Everyone admits this. Waste is great, and potential is great too. Potential is extremely large in manpower, material, and financial resources alike. In 1990, Issue 11 of QIYE GUANLI [ENTERPRISE MANAGEMENT] published an article by a comrade in the planning bureau that analyzed enterprises' economic returns. He said that it was not necessary to compare enterprises making the best returns with enterprises making the poorest returns; a simple comparison of the average returns of all firms showed a very wide gap. For example, returns of the best enterprises in the instruments and meters industry ran between 11 and 56 percent higher than the industry average. Among coal, metallurgy, and textile firms, returns of the most profitable enterprises ran 60 to 141 percent higher than the industry average. Among tobacco and food firms, the best enterprises made returns that were between 155 and 374 percent higher than the average for all firms in the industry. The greatest gap among firms in the same industry was between 207 and 536 percent. This is a case of "Not a care until you compare, but once you compare you get a scare." In 1991, Issue 1 of QIYE GUANLI magazine published the 1989 profit and tax figures of 250 firms making the highest returns in 25 trades, 10 firms from each trade. In addition, it listed the national average for each trade for everyone to see. The gap was truly astounding. This was very convincing, so we say that potential within enterprises is very great, and that we must look inward to conserve and tap potential.

Fourth is the need for serious attention to a readjustment of the product mix. Once an accurate appraisal has been made, readjustments should be made. Early readjustment means early initiative; late readjustment means late initiative, and no readjustment means passivity. Readjustments cannot be made the way they were made earlier when some enterprises "built high walls, basked in the sun, and did nothing to improve." Some enterprises simply "went into hibernation" to await the warmth of springtime and the blossoming of the flowers before regaining consciousness, their original pattern of activity changing not at all. Now it is necessary to put effort into the development of new products, and improving product quality and usefulness while simultaneously providing premium service. This means keeping our eyes on the market, or as everyone says "Don't go in search of the mayor [shizhang] but do go in search of markets [shichang]; the mayor has feelings; markets have none," so go into the merciless markets to test your products. Only when products circulate in markets, and factories revolve around products is there any way ahead; otherwise there is no deliverance. There is yet another problem in opening markets and that is that circulating in markets does not mean hanging oneself from a single tree. New markets have to be developed constantly: domestic markets, foreign markets, urban markets, and rural markets. When the east is already dark, there is still light in the west. China is a large market; it has this advantage.

Fifth is serious attention to technological progress. The need to seize opportunities to carry out major technological transformation was discussed above. In technological transformation, emphasis must be on the "technological." Not long ago at a meeting in the Ministry of Machine-Building Industry, Comrade Zou Jiahua [6760 1367 5478] made a speech from which I derived very great inspiration after reading it. He said that any old enterprise whose product lines needed a reorientation should carry out technological transformation; even if no changes are made in the product lines themselves, product quality should be improved. However, substandard equipment cannot turn out products that meet specifications, so equipment has to be replaced too. The main reason some Chinese commodities entering the international market are sold only in street stalls is their low technical quality. Therefore, Comrade Zou Jiahua drove home the point by saying that the emphasis in technological transformation has to be on the word "technological." If a round of technological transformation does not improve the technological level, the equipment level, the workmanship level, and the product level, what is the use of undertaking technological transformation?

Sixth is strict management in combination with democratic management. First, it is necessary to improve understanding of the meaning of management, which is to say it is necessary to emphasize management to change the concept of management. One important aspect of enterprise management is on-site management; therefore comrades in some enterprises watch markets externally and watch the work place internally. They keep one eye on the market and one eye on the work place for the improvement of on-site management. They call it management by objective. Once when a factory completed its monthly work plan three days ahead of schedule, the deputy manager suggested that now that the factory's products were selling well in markets, might it not be possible to add a shift on these three days to increase output somewhat. When the idea was presented to the general manager (who was a Japanese), he disapproved. He said that plan had already been fulfilled. Now, he wanted to devote the time to the training of staff members and workers. Therefore, nothing was produced for the three days. Instead the staff members and workers received training in doing things strictly according to plan. A strict and conscientious plan management system, a centralized, unified, highly efficient production management system, and quality control exercised by all personnel in all regards throughout the entire production process produced a rise in the enterprise's efficiency, product quality, and the enterprise's reputation. As for democratic management, the key lies in the position of staff members and workers as masters in their own house. This is what Comrade Lu Guanqiu meant in the GUANGMING RIBAO article in which he spoke about "thinking about matters that a master thinks about, doing the work that a master does, carrying out the responsibilities that a master carries out, and sharing the joys that a master shares" is to emphasize

two different aspects of the task. Comrade Lu Guanqiu termed them the role of the "two capacities," one of which is brain capacity, and the other of which is money-making capacity: one spiritual, the other material. Genuinely strict management must be founded on staff member and worker awareness and staff member and worker management initiative. This requires, in turn, the elevation of staff member and worker consciousness, which requires genuinely placing staff members and workers in the position of masters playing a role as masters.

Seventh is continued observation and perfection of the contract system and the plant manager responsibility system. The contract system has to be maintained and perfected. One should not suppose that the contract system is already perfect in every way. This point must be made perceptually clear. When *Capital Iron and Steel Contract System* was published in 1987, in the foreword I said, "One cannot be unyielding and insulated; one must constantly enrich and constantly innovate" as reform proceeds. This means that reform cannot stop. The contract system must be constantly improved and constantly perfected. We must have a consensus on this point. We must correct certain shortcomings in our contract system, such as enterprises taking a short-term view on some issues, some enterprises making the mistake of "substituting contracting for management." Both must be improved. Furthermore, internal management must be improved. Responsibilities, rights, and interests must be broken down level by level right down to individuals, and enterprises' relationship with staff members and workers must be further clarified so that "each individual bears a part of the 1,000 jin burden that all must share." This is the only practicable way. At the same time, we must hope that everyone will attend to the issue of the separation of taxes from profits. In a speech he gave at the close of the National Planning Conference on 1 December 1990, Comrade Li Peng said that the separation of taxes from profits is not a retrogression. We must take this statement seriously. We must study this problem. No matter whether one agrees with it or not, one must study it. ZHONGGUO QIYE BAO [CHINA ENTERPRISE NEWS] has reserved a space for the study of this matter in which all views may be expressed. Recently, it also has been preparing to hold a special workshop to study the contract system and the issue of separation of taxes and profits. We must maintain objectivity on this issue. We must deal conscientiously with major issues having a bearing on the intensification of enterprise reform and further reform of the enterprise operating mechanism. We must be sure to bear firmly in mind that reform is an unending development, perfection, and intensification process. In maintenance of the plant manager responsibility system, one very important thing is that all parties must support the plant manager's central position. There can be no equivocation on this point. At the same time, plant managers must resolutely rely on the party and on the masses. Chairman Mao said it succinctly: "We must believe the masses, and we must believe the party. These are two

fundamental principles. If we doubt these two principles, nothing can be done." This is a truth that we cannot forget no matter what. On the relationship between the party and the government—the so-called heart and nucleus issue—no longer are there two centers but three. Not only is there the nuclear role of the party and the key position of the plant manager, but there is the position of the staff members and workers as well. This is the "popular will." Success or failure depends on support or opposition from the popular will, and whether everyone's zeal can be aroused to work with unity of purpose in running the enterprise. There can be no two hearts and three minds; there must be one heart and one mind. Three minds must be made one mind. The Zhoukou Monosodium Glutamate Plant in Henan was founded during the economic readjustment of 1984 through the merger of several small distilleries and sugar refineries. The Lotus Flower brand of monosodium glutamate that this plant produces is a big success. During 1990, 100 million people nationwide ate their monosodium glutamate. In 1991, they plan to get 200 million people nationwide to eat their monosodium glutamate. Both the plant manager and the CPC committee secretary at this plant are rather able people. Whenever a controversy arises in society that pitted the role of the key against the role of the nucleus, the two of them discuss it. They have paraphrased a couplet from a scroll that hangs in the country home of Zhuge Liang [a famous historical statesman] at Wolonggang in Nanyang, which originally read as follows: "Devoted to the Han empire without distinction between its founder or succeeding emperors; accomplished himself, what need is there to quarrel about whether he came from Xiangyang or Nanyang?" They changed it to read as follows: "When one is devoted to an enterprise, no matter whether in a position of authority great or small, when the enterprise is renowned throughout the land, what need is there for quarrels between the key and the nucleus? One can discern from this that a leadership team that is united for battle is extremely important. The key lies in greater building of ideology. Some comrades point to the problem of the ages of leading cadres in enterprises. This problem will be solved in the future, because enterprises and the government are not the same in the final analysis.

Eighth is the intensification of internal reform in enterprises. At the moment it seems that the key to the intensification of enterprise internal reform lies in optimized labor groups, strict testing, and distribution according to labor. This is to say that the key problem is smashing "large common pots," and "iron rice bowls." Unless this problem is solved, and this action achieved, the superiority of socialism will be unable to come to the fore, and thus we will not be able to stand in an invincible position in world competition. This problem is becoming more and more evident. We must meet the challenge and solve this problem. A comrade from Tianjin told me that some enterprises in Tianjin have put into practice "one factory two systems" in designating some production lines. Some are newly built production lines where everything is done according to

new methods. Wages and benefits have been raised, and management is very strict. Anyone who does not operate this way is asked to leave this production line and go eat out of the "large common pot." This experiment produced remarkable results. Since a social security system has yet to be established, surplus personnel in enterprises cannot be pushed off into society. A comrade from Beijing told me that when they optimized labor teams there, 10,000 people remained unassigned following the optimization. Of these, the enterprise itself found work for 7,000, the city placed 2,000, and only 1,000 remained to be placed by society—a not very large number. If one has resolve, this problem can be solved. The administrative structure has to be simplified, and superfluous personnel let go in order to institute economic accounting and practice strict management. This is the only way to produce efficiency, to make money, and to establish a genuine stimulating mechanism and a limiting mechanism. Some time ago, a comrade from the Ministry of Textile Industry conducted a survey in a textile dyeing plant located in Fuyang in HuaiBei. After returning, he looked me up for a chat. That plant's wage system was reformed, all wages and bonuses allowed to float. At first the staff members and workers would not accept this reform, but finally they were convinced. After trying the system out for a while, everyone was very satisfied. This said that this was the way socialism should be. The former eating out of a "large common pot" was not socialism. That was eating socialism; only this is real working socialism. Distribution must tilt particularly toward staff members and workers on the front line, the number of grades widened. Then the "large common pot" problem can be solved. Therefore, after some effort, it is completely possible to shape a microclimate and a microenvironment within an enterprise, and it also helps overcome some of the difficulties that the outside environment occasions.

In summary, the state must concentrate forces to solve the problem of improving enterprises' external environment. Enterprises must concentrate their strength to solve the problem of internal enterprise reform and the intensification of reform. In this way our improvement of the economic environment and rectification of the economic order will have hope; we will have hope of attaining the second strategic goal; and the superiority of socialism can be truly demonstrated.

Planning, Market Integration Urged

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[Article by Zheng Yan (6774 1693), edited by Lin Daojun (2651 6670 0689): "Tentative Views on Organic Integration of Planned Economy and Regulation Through Market Mechanism"]

[Text] In the operation of the modern economy, there are two basic modes for the deployment of social resources: Planning and the market. The close integration and mutual complementarity of these two modes is an innate

requirement and inevitable trend in socialized large-scale production and the development of the commodity economy. The Seventh Plenary Session of the 13th CPC Central Committee pointed out: "In accordance with the requirements of developing a socialist planned commodity economy, establishing an economic operational mechanism in which the planned economy and regulation through market mechanism are integrated is the basic orientation in deepening economic structural reform." How to correctly understand the essence and role of these two modes and how, under our country's conditions, we are to achieve the organic integration of the two, have been topics of great research and exploration by economic theory circles and practical work departments. Here we would also like to put forward a few ideas.

I

The planned economy is mainly realized through planned regulation of socioeconomic activities. Essentially, this is an objective demand of socialized large-scale production. Following the expansion of social division of work and the progress of science and technology, production has daily become more socialized and modern, and the economic links between the various industries, regions, and enterprises have become increasingly close. In order to ensure that overall economic life can go on in an ordered, smooth, and sustained way, people must consciously utilize planning and, within the scope of the overall society, allocate social labor in a proportional way and carry out regulation of all sides of society so that they can be mutually coordinated and combined.

Marx pointed out: "The amounts of products corresponding to the differing amounts of needs demand different and quantitatively determined amounts of society's aggregate labor. It is self-evident that this necessity of the distribution of social labor in specific proportions is certainly not abolished by the specific form of social production."¹ That is to say, regardless of the country and regardless of the social system, all must allocate social labor in a proportional way, so that social production and social needs are basically balanced, and so that the development of the various sectors of the national economy is basically coordinated. Only thus will it be possible to maintain the normal cycle of the overall social economy. This is an objective pattern. In the early stage of capitalism, the proportional development of the social economy was mainly realized through market competition and through reliance on the spontaneous role of the law of value. The innate proportional relationships within the social economy thus often suffered harm and often could only be revived through painful economic crises. After World War II, in order to alleviate the basic contradictions of capitalism and avoid over-intensive social shocks, the capitalist countries put their efforts, within the limits allowed by capitalist relations, into achieving a situation where economic movement was in accord with socialized large-scale production,

where there was development in accordance with definite proportions, and where there was a certain degree of state intervention in the economy. Many states, such as Japan, South Korea, and France adopted a series of macroeconomic regulatory mechanisms such as implementing "planning," formulating socioeconomic development plans, and formulating industrial policies in order to guide funds, labor, and technology into various industries, and through financial, credit, and state participation measures, they engaged in intervention in their economy. In this they achieved definite results. This shows that even in capitalist countries, there objectively exists the need to implement planned regulation and that it is possible to create conditions in order to meet these needs. In socialist countries, the socioeconomic system is based on public ownership and is established in accordance with the idea put forward by Lenin of regularly and consciously maintaining balance. Under such a system, the basic interests of the various members of society are identical, and thus there is a greater possibility, within the scope of the whole society, of allocating social labor in a planned and proportional way to the various economic sectors and various spheres of society, and for the allocation to be more scientific and rational. Planned regulation in socialist countries and capitalist countries certainly does differ in terms of its aims, points of departure, scope, and methods. However, as a basic mode of deploying resources and regulating economic movement, under socialized large-scale production conditions, it is essential in both cases. Thus, there is not an inevitable relationship with the social system. Seeing planning as the sole preserve of socialism or seeing regulation through market mechanism as exclusively capitalist is not in accord with the actual situation and is very harmful.

Planned regulation and especially the planned regulation engaged in by socialist countries in accordance with the patterns of proportional development, plays an irreplaceable and positive role in promoting the coordinated development of the national economy: First, it makes it possible to consciously maintain an overall balance of the national economy and a basic balance among the various sectors, and guarantees the coordination of major proportional relationships. Second, it makes it possible to deploy resources rationally, and in particular, within a certain period, it can concentrate limited personnel, materials, and resources in the important places where the state most needs them. Thus, it is able to carry out some major construction and develop those basic industries, basic facilities, public undertakings, and nonprofit scientific, educational, cultural and social welfare undertakings, where the investment required is quite great, the construction period is quite long, and profit rates are quite low. In this way, it can promote a firm base for overall economic development and for doing well in handling environmental problems and in maintenance of ecological balance. Third, it can rationally deploy social productive forces, reduce duplicate construction, and avoid the situation where regional economic structures tend towards uniformity. Fourth, it can quite fairly

and rationally handle economic interest relationships on all sides in society, support the development of economically backward regions, regulate income distribution, guard against polarization and, in a situation where there is a seriously insufficient supply, can rationally distribute social products and, as far as possible, guarantee the basic needs of society. Fifth, through the formulation of market regulations and the establishment of a regular market order, it can limit the emergence of all sorts of chaotic phenomena in market regulation.

However, the positive role of regulation through market mechanism is not naturally brought into play. Rather, this requires certain prerequisites. One of the most important is firm adherence to the basic pattern of the commodity economy, that is, the law of value. That is to say, plans must be drawn up in accordance with the demands of the law of value, so that planned regulation is established on the basis of the law of value. Also, it is necessary to stress and bring into play the due role of the market mechanism and achieve plans by guiding the market. If the state really meets some unusual situation and has special needs, and plans are not able for a time to fully consider the demands of the law of value, the period of such a process should be reduced to as short a period as possible and, after the events, there must be necessary compensation. If we ignore the law of value and the role of market mechanism, it will not be possible to bring the positive role of planned regulation into play, and economic development will suffer setbacks. In the past, we experienced much suffering in this respect and we should take warning from those experiences. However, we must not go to the other extreme and ignore the necessity and importance of planned regulation, and say that all the problems with the old system, the mistakes in planning work and some of the difficult-to-avoid problems which have appeared in economic work, result from planned regulation. Planned regulation is one thing, while how planned regulation is implemented is another.

As everything in the world has a dual nature, planned regulation also has an advantageous nature and a limiting nature. Planning is an ideology. The level of a person's understanding and whether or not they have a correct, overall, and deep-going understanding of the actual situation can both affect the quality of planning work. The establishment of a system of socialist public ownership of the means of production means that, as compared to capitalist countries, we have better conditions for rationally planning and distributing social labor and for guaranteeing the coordinated and healthy development of the national economy. But this is only a possibility. Possibility does not equal reality. In order to turn this possibility into a reality, it is necessary to handle matters strictly in accordance with objective patterns. Planning (here referring to macroeconomic development planning) touches on the whole national economy. If planning is correct, it can promote the proportional development of the national economy. If planning goes wrong, it can create serious losses for the national economy. Further, planned regulation is not as

flexible as the market and not as quick in reflecting changes in social supply-demand relationships. Thus, it is easy for production to become divorced from demand, meaning that the products produced cannot properly meet the complex, diverse, and ever-changing demands of the consumers. Planned regulation lacks the strong mechanism of spontaneous competition seen with regulation through market mechanism, and thus it is easy for various kinds of egalitarianism to appear, which can affect the full bringing into play of the dynamism, enthusiasm, and creativity of all sides. Plans must cover the whole society, but planning is not an unlimited power. In socioeconomic life, there are many spheres and links which are difficult to plan and which do not really need to be subject to planning. As Lenin said: "At present, as far as we are concerned, perfect, all-inclusive, true planning equals a 'bureaucratic fantasy.'" For example, in respect to enterprise operational management and the product types and varieties needed by the masses in their daily lives, we cannot rely on planned regulation, and even if we did, the regulation would be no good. If such are tightly managed, it will fetter the enthusiasm of the enterprises and the masses. This will inevitably produce bureaucratism and blind guidance, which in turn will result in a situation where that which should be managed is not managed or not managed well, while that which should not be managed is managed excessively and too tightly. This will result in economic life losing its vigor.

Correctly understanding the positive roles and limitations of planned regulation and scientifically appraising its position in economic life is a precondition for correctly using the various macroeconomic regulatory and control measures. In the same way, we must analyze both sides of regulation through market mechanism. Only by using the method of dialectical materialism to observe and analyze these matters and, in light of summing up historical experiences, continually exploring through practice, will we be able to correctly handle the relationship between planning and the market and raise the level of macroeconomic management.

II

Using the market mechanism to regulate socioeconomic activities is a basic requirement and basic characteristic of all commodity economies. The commodity economy is a stage which the socioeconomic development of mankind cannot skip. In our country, the level of the social productive forces is quite low, labor is still a way of making a living and there exist diverse economic components. This determines that for the present and for quite a long historical period to come, our country's economy will remain a commodity economy; and that we must strongly develop commodity production and commodity exchange and must utilize commodity-money relations in all economic work and economic activities. The market is the sum of commodity exchange relationships and an important activity venue for commodity producers and operators. What an enterprise produces, how it is produced, who it is produced for,

how enterprises acquire their various production factors, and how they sell their products, are all determined by the market. Social demand is ultimately manifested as market demand. It can be said that there is no such thing as a nonmarket commodity economy. In the same way, there is no such thing as a market without a commodity economy. Regulation through market mechanism, which is the external manifestation of the basic pattern of the commodity economy, the law of value, uses various modes to influence the flow and combination of various economic elements and to influence commodity production and commodity exchange. If we want to develop a planned commodity economy, we must fully stress the role of regulation through market mechanism, actively develop the market, and consciously integrate the planned economy and regulation through market mechanism.

The positive role of regulation through market mechanism is, in summary, mainly manifested in the following: 1) It can, through developing competition, encouraging the diligent and punishing the lazy, and giving play to the superior and weeding out the inferior, quite fully motivate the enthusiasm of enterprises and laborers, stimulate people's initiative and zeal for creation, and ensure that economic activities are full of vigor. 2) It can, in accordance with changes in social demand, promote the rational circulation and optimal arrangement of the various economic elements, and automatically and in a timely way, readjust microeconomic activities and short-term resource deployment and product structures. 3) It can guide and encourage enterprises to organize production and operations in accordance with market demand, guide and regulate social consumption, and achieve the integration of production and demand. While satisfying social demand, it can reduce, as far as possible, loss and waste. 4) It can urge enterprises continually to adopt new technologies, develop new products, improve operational management, and thus promote the raising of the technological level and management level of social production. 5) It can act as a gauge for the scientific nature and accuracy of planning and, in a timely way, feed back the social demand situation and the demands of the masses to decisionmaking organs. Since the implementation of reforms and opening up, while maintaining and improving planned regulation, we have brought the positive role of regulation through market mechanism into play and, to a certain degree, changed the situation of the past where there was excessively tight management. This has allowed an unprecedented vigor and vitality to appear in socioeconomic activities. Practice has proven that this road is correct, and we should adhere to it.

At the same time, regulation through market mechanism also has an innate spontaneity, blindness, and even harmful nature. 1) Regulation through market mechanism can only provide short-term signals and, with the stimulation of economic interests, it is easy for "overreaction" to occur, leading to a blind clash between production and demand. Over the last few years in our

country, because macroeconomic regulation has not kept pace, this blind-action aspect of regulation through market mechanism has appeared in many areas. The manifestations include "whole-people business," panic purchasing, and especially duplicate construction, production, and imports, so that "in every direction, everyone is producing color television sets, all produce refrigerators in the coastal areas and the hinterland, and in every province, they are producing all sorts of mediocre vehicles". This has resulted in chaos in economic order and a great waste and loss of social wealth. 2) In respect to some basic facilities and nonprofitmaking enterprises that have great social benefits, and in respect to the production of products for which raw materials are seriously restricted, the role of regulation through market mechanism is very small, and it may even play no role at all. 3) The development of regulation through market mechanism will lead to an excessive disparity and polarization in income distribution. 4) Regulation through market mechanism cannot consciously realize some of the special goals of socialism, such as the unifying of fairness and efficiency, assisted economic development of poor areas, and fairness in social distribution. We need to maintain a sober understanding of such negative effects of regulation through market mechanism and must not blindly worship the market, hold that "the market is omnipotent," or that "the market decides everything", and ignore or discard necessary planned regulation. Otherwise, it will have serious effects on socioeconomic life. The dual nature of regulation through market mechanism shows that using it in the socialist economy, integrating it with planned regulation, and combining the two well and effectively, is a very complex and difficult problem, especially in the current situation, where in our country a new system is replacing the old, where the old planning mechanism has already been broken through, but where mandatory planning still constitutes quite a large proportion of planning, and where, although the market mechanism has been introduced, the development of markets has not been good. Exploring avenues for integrating the two through combining theory and practice is a major and pressing task placed in front of the theory circles and work departments.

III

Implementing the organic integration of the planned economy and regulation through market mechanism requires the integration of their advantages and strong points and the elimination or further reduction of their defects.

At present, the form of integration between these two basically involves having the plans managing one part and the market managing one part. This sort of integration where the two are just tacked together is undoubtedly a major breakthrough as compared to the highly centralized, ossified system of the past, and does play a positive role in enlivening enterprises, circulation, and the economy. However, following the development of the commodity economy and the deepening of reform,

there has been an increasing pluralization of economic interests, and the friction and clashes between the two forms have become increasingly serious. This has brought many real and serious problems to the development of the national economy. In addition, in many respects, it has not been possible to integrate the positive roles of planning and the market; instead, the negative roles have been combined, sometimes leading to an intensification of these negative roles and undesirable development. The development of practice urgently requires us to employ their internal unity and complementary nature, that is, to achieve an organic integration in which the two supplement each other and restrict each other, to replace the current integration where the two are just tacked together.

The key to achieving organic integration lies in changing concepts and gaining a new and scientific understanding of "planning" and "the market." The planning we speak of: 1) Should not be a subjective will divorced from reality, but should fully reflect the law of value and market supply-demand relationships; 2) should not, or should not mainly, be mandatory in nature, but should rather be guiding policies and should mainly be achieved through economic, rather than administrative measures, and be achieved through indirect regulation and control by government departments rather than direct regulation and control; 3) should not be all-inclusive or cover everything regardless of its importance. Rather, it should provide a rough outline and mainly control "the macroeconomy" and not manage "the microeconomy." In the same way, the market should not be the market in the old traditional sense, not a completely spontaneous market, but rather a market guided by state planning and policies. It should not be purely a consumer product market, but rather a market system which includes markets for all sorts of commodities, consumer products, means of production, technology, information, and real property as well as financial markets, labor markets, and leasing markets. It should not be a closed market, but rather an open competitive market.

Only with a common understanding like this will the organic integration of the planned economy with regulation through market mechanism be possible and will integration be well-achieved. According to such an understanding: **Planning will mainly manage the balancing of overall volumes, optimization of major structures, creation of a fine macroeconomic environment for market operation, and fair distribution; the market will mainly manage equal competition, so that the superior succeed and the inferior are weeded out. The relationship between planning and the market should be one where the market is the base and plans provide guidance. The plans will be established on the basis of the market and the market will be subject to the guidance and coordination of the plans.** That is to say, the market will be the basis for and operational tool of planned decisionmaking. Formulation, implementation, testing, and rectifying of plans must be done through the market. Planning will thus dynamically regulate market parameters, ensure that the

market develops healthily in a certain direction and use-market relationships to achieve goals fixed in the plans. Planning must not pin down, but must guide and promote microeconomic activities and a competitive market. This relationship between planning and the market will, in our country's actual utilization of the two modes, have different stresses at different times and in different places, in accordance with levels of economic development, degree of maturity of the commodity economy and depth of reform.

In order gradually to realize organic integration between the two, we must concurrently put efforts into the two aspects of improving planned regulation and fostering a market system.

In respect to improving planned management, the main avenue is reforming the planning system and management modes, to truly establish planning on the basis of the law of value.

First, in terms of the ideology of planned guidance, we must earnestly establish the concept of comprehensive balance. The balancing of total social demand and total social supply including the balancing of the magnitudes of value (that is, balancing finances, credit, and foreign exchange) and balancing the magnitude of use value (that is, balancing goods and materials) is a condition for the normal cycle and healthy development of the national economy and also a precondition for the normal bringing into play of the role of regulation through market mechanism. Achieving these two balances is a basic task of planned management. In the past, because of deviations and mistakes in guiding ideology and actual work, we often engaged in "gap planning," "balancing of products in full supply," and "excessive distribution of national income," and held that "deficits are not harmful" and that "inflation is beneficial." This meant that for a long time there was a situation of serious imbalance in the national economy, whereby demand was excessive, resources were lacking, and supply insufficient. Thus economic development frequently suffered setbacks and economic benefits declined. We need to correct the guiding ideology and overcome and correct various ideas and methods which do not stress balance. Achieving overall balance does not refer to a single item of balance. Rather, it refers to balances in the various areas of finances, credit, foreign exchange, and goods and materials, as well as balances among them. It does not refer to a static balance, but to a dynamic sustained balance. The various economic variables are constantly changing as their times of change and degree of change are all different. An original balance may change, under new conditions, into a new imbalance. For example, when resolving the imbalances involving economic overheating and demand inflation over the last two years, a new imbalance involving insufficient effective demand, supply being relatively excessive, and structural weakness in the market appeared. This shows that balance is always relative. Planned management should mainly involve dynamic balance and pay close attention to changes in the economy as it develops, to find and

eliminate in a timely way elements of new imbalance which could appear at any time in economic development. We cannot hold that planned balance is something which can be achieved once and for all and must not be satisfied with "one year in balance, one year of peace."

Second, in terms of the focus of planning, it should be switched from short-term planning and management of production and sales to long-term planning and industrial policies.

The structural balance of industries is a basis for balance in overall volumes and particularly for a general balance between social supply and social demand on the magnitude of value level. The balancing of individual volumes and general structural balance can be regulated and achieved through the market. However, the balancing of overall volumes and major structural balance must rely on planning. We must not act like they did in early capitalism where there was complete reliance on market competition and where a new industrial structure was formed through weeding out, bankruptcies, mergers, and reorganization. This is a painful process involving very great losses and a very long time. It also goes against the socialist orientation. The practice of our country shows that in the current situation, where market development is not good, if we purely rely on the market, not only will it be difficult to readjust the structure, but it will exacerbate the contradictions producing structural imbalance. Thus, we must strengthen the planned management and planned regulation of the industrial structure and implement a situation of overall planning where "the entire country is one chessboard." First it is necessary, in accordance with our country's economic development goals, to formulate scientific long-term development plans and to set down economic development strategies, policies, and an overall blueprint for some time to come. Without long-term plans and only having annual plans, it will be impossible to resolve the contradictions causing major imbalance in the economic structure. Second, we must formulate industrial policies for various industries, which accord with long-term planning requirements and the actual situation and adopt powerful measures to guarantee their implementation. Only in this way will we be able gradually to readjust the industrial structure.

Third, in terms of the scope of planning, we must adhere to the principle that we must plan broadly, not plan details and must manage major aspects but not minor aspects. In the past and at present, a big problem in our planning work is that we manage things excessively and in too much detail. This has produced many problems. We must put efforts into changing this situation. In respect to the production, supply, and sales activities of general enterprises, we should create conditions by which they are mainly guided and regulated by the market, so that enterprises organize production in accordance with market demand and products enter circulation through the market.

Fourth, in terms of planning methods, we must be sagacious and careful, fully verify plans, and make decision-making scientific. 1) The choices in planning and especially in major construction projects must be made through scientific appraisal and verification. The verification organs and experts must, in their work, transcend their own interests and see things from a high plane and a long-term view. We certainly must not engage in subjective arbitrariness, have just a small number of persons make decisions, or engage in "leading cadre projects." 2) Plans must stress focal points and grasp key aspects. Plans which do not differentiate the major from the minor, in which there are developments spread all over the place, and in which there is no focus, are of no significance in guiding economic development. At present, planning must aim at the shortcomings of the market, and stress must be placed on resolving problems which the market finds difficult to resolve or can resolve only with great expenditure of time and money. In particular, stress must be placed on the development of science and technology, positively organizing major technological breakthroughs, propagation and application of new technologies, and renewal and transformation of existing equipment. 3) In considering the tapping of potential, using resources, reducing costs, and regulating imports and exports, planning must leave an appropriate amount of leeway. If every item is fully planned and everything is tightly fixed, in facing situations of complex change, it will be easy to fall into a passive state. 4) Macroeconomic decisionmaking power, which affects the whole situation, must be centralized in the central authorities and must not be dispersed. In respect to microeconomic activity decisionmaking, we should allow the enterprises to do things in accordance with their own actual situations. Local decisionmaking can be done by departments and regions.

Fifth, in terms of planning methods, we need to gradually switch from relying mainly on administrative orders and target management to relying mainly on economic levers, policies, and laws. Whether or not planning is scientific and effective is determined by whether or not it accords with the demands of the patterns of proportional development and the law of value, and whether or not it mobilizes the enthusiasm of all sides. Planning must adopt various necessary administrative measures. In the process by which the old system is changing to the new, in various respects, some administrative measures must be appropriately strengthened. However, seen from the long term, the realization of planning goals must to a great degree, rely on economic measures and policy and legal measures. However, following the development of the market and the establishment of a market system, planning must see a greater switch towards regulation and control of market parameters and market activities. Even if we retain some indirect mandatory planning, it must be established on the base of market operation, must use market mechanism, and must be realized through exchange at equal value.

Through efforts in the above five areas, we will be able to better bring into play the superiorities and avoid the

defects of planning. At the same time, we can create fine conditions for market operation and avoid the appearance of serious blindness in regulation through market mechanism.

In respect to fostering a market system, the most important thing is to establish a national, unified socialist market system, to promote the development of markets, and to establish normal market order, so that markets develop in a healthy direction. To this end, it is necessary to grasp the current beneficial opportunity, deepen price reform, gradually relax prices, and put price relations in order, so as to create necessary conditions for normal market operation. Apart from this, in respect to the means of production market, we need to stress the resolution of the following four problems:

First, we must develop socialized large-scale circulation and establish a unified socialist market. At present, there are departmental and regional divisions forming their own systems. This is a serious obstacle affecting the development of a market. It is necessary, following the continual deepening of overall economic structural reform, to break down divisions formed by regions and departments, change the situation of blockades formed by administrative regions or departments, organize circulation, and, in a planned and gradual way, change the current situation where in international trade and domestic circulation, there are separate regions of means of production and means of livelihood circulation. We should thereby establish a rational, unified market, and form a new circulation system which is open and not subject to departmental and regional divisions. In this way, the market mechanism will, throughout the whole society, bring into play its role in linking production and demand, regulating supply and demand, promoting technological progress and the success of the superior and the weeding out of the inferior, and thereby avoid as far as possible the problem whereby backward enterprises are protected, a situation which results from the market not being unified.

Second, we must uphold and improve policy measures for developing the market, enlivening circulation, and bringing into play the positive role of regulation through market mechanism. Since the institution of reform and opening up, in accordance with the developmental demands of a planned commodity economy, we have adopted a series of policies and measures for establishing, developing, and enlivening the market. Over the last few years, because of economic overheating, state macroeconomic regulation and control and management of the market has not been able to keep pace, and some phenomena of chaos have appeared in the circulation sphere. Some comrades thus do not dare to propose "enlivening the market," and they do not dare to persevere with some enlivening measures which had already proven effective. Some regions have even restricted and closed markets. This will result in the normal operation and cycle of production, circulation, and consumption being restricted, will restrict the bringing into play of the positive role of regulation through market mechanism,

and will eventually restrict economic development. Thus, we must change this situation, persist with, stabilize, and perfect various policy measures for enlivening the market and circulation, and thereby create a fine economic environment for regulation through market mechanism.

Third, we must strengthen regulation and supervision and establish normal market order.

A complete set of market laws and a market management and supervision system are a basic guarantee for achieving orderly circulation in the market. A few years ago, there appeared problems such as serious chaos in the market, illegal operations, unequal competition, and bribery. These were not essential elements of the market, but were produced by the legal system not being complete and management not being rigorous. In order to establish a normal market order as quickly as possible and eliminate phenomena of chaos, we must grasp the formulation and perfection of necessary market laws, rigorously examine the qualifications of operational units, strengthen market management and supervision, protect legitimate operations and normal competition and oppose monopolies and blockades, strike at illegal operations and improper competition, and bring the market onto a track which is subject to legislation and standardization.

Fourth, we must strengthen macroeconomic regulation and control over the market. Experience has proven that when a socialist country introduces the market, it is necessary for it to proceed from the actual situation where public ownership is the main part and diverse economic components, operational modes and circulation channels coexist, and where the market system will require quite a long process of development. It must build a major channel which can manifest the state's macroeconomic regulation and control intentions, and establish a sensitive and effective regulation and control structure and system which can carry out timely regulation and control when major problems appear in the market. To this end, there is a need to adopt some appropriate policies and strengthen the power of the state-run circulation enterprises, so that they can take on the tasks of the major circulation channel and, in accordance with market changes and the requirements of economic development, guarantee key needs and stabilize the market. At the same time, the state, on the basis of doing well in macroeconomic balance and the proportional development of the national economy, must strengthen the coordination of the various departments, comprehensively adopt various measures to engage in monitoring of market operations and, when problems are found, to engage in timely regulation and control.

If we resolve these various problems, it will be possible to bring into play the positive role of regulation through market mechanism and reduce the negative role, so that planning and the market are unified and coordinated, so that the advantages of planning and the market are made use of and their disadvantages are avoided, and so that

each is integrated with and supplements the other. In this way, they will be able to promote the healthy development of our country's socialist economy.

Footnotes:

1. *Selected Works of Marx and Engels*, Vol. 4, p. 368
2. *Collected Works of Lenin*, Vol. 35, p. 473

Article Views Parts, Whole Relationship

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[Article by Wang Zhaoyao (3769 2507 5069), Fuyang Prefectural CPC Committee secretary: "Correctly Understand, Handle Relationship Between Parts and Whole"]

[Text] The parts and the whole constitute an important pair of philosophical categories and also constitute a contradiction which we frequently encounter in our daily work. Whether or not we can correctly understand and handle this contradiction has a direct relationship with the development of our cause. The "CPC Central Committee Proposal for the 10-Year Program for National Economic and Social Development and the Eighth Five-Year Plan" which was discussed and passed at the Seventh Plenary Session of the 13th CPC Central Committee, clearly pointed out: "We must handle the relationship between centralizing and decentralizing well." This was in response to "the current phenomenon whereby there exists in various areas of economic life excessive decentralizing which cannot be ignored." The "Proposal" requires that we must "correctly handle the relationship between centralizing and decentralizing, and between the center and the localities. In accordance with the principle of maintaining the unified nature and flexibility of the national economy and bringing into play the enthusiasm of both the center and the localities, we must carry out necessary readjustment and set down clear divisions in terms of administrative powers, financial powers and economic regulatory and control powers. We must firmly strengthen the macroeconomic regulatory and control powers of the central authorities, improve the efficiency and authority of macroeconomic regulation and control, and appropriately expand the jurisdiction of the local governments in using economic levers." At present, the various regions and departments are grasping the opportunity to readjust and formulate their own development goals and plans in accordance with the "Proposal." Undoubtedly, in this process, it will be extremely important to seriously implement the directives of the "Proposal" in respect of "correctly handling the relationship between centralizing and decentralizing, and between the center and the localities." Here, in the light of my own many years of work experience, I would like to talk about how to correctly understand and handle the relationship between the parts and the whole.

In Understanding and Handling Relationship Between Parts and Whole, We Have Been One-Sided and Paid High Price

The reason the parts and the whole can form a set of philosophical categories is because they have a wide-ranging capacity for summary and a universal applicability; and they reveal, from quite high and quite deep levels, the complex links between things and in the process of development of things. Regardless of whether we speak of the years of the Chinese revolutionary war or the stage of socialist construction, we always meet this contradiction. Regardless of whether we are conscious of its existence and whether or not we handle it consciously or unconsciously, it always objectively affects the development of our cause. We have both valuable experiences and painful lessons in this respect.

In the years of revolutionary war, especially in the period of the war of resistance against the Japanese and the war of liberation, CPC members, represented by Mao Zedong, put great stress on handling the relationship between centralizing and decentralizing, between the parts and the whole. They used the whole to spur on the parts and the parts as a contrast for the whole and thereby led the Chinese people to achieve one victory after another and finally liberate China. This accumulated valuable experiences for us in correctly handling the relationship between the parts and the whole. However, prior to the Third Plenary Session of the 11th CPC Central Committee, in the management of the state economy, because we excessively stressed a planned economy with a high degree of centralization and stressed the interests of the center, while relatively ignoring the local interests and the role of the market mechanism lever, it resulted in the entire economy lacking vigor and the development of the productive forces being fettered. Since the beginning of the reform and opening up, we have broken through this unitary, ossified model, implemented a financial system which is managed at different levels, handed down investment management powers, implemented economic contract responsibility systems, enlivened the market, and greatly motivated the enthusiasm of the localities, departments, and enterprises. This has resulted in the national economy seeing swift development and realizing great achievements. However, for a time, as there was an excessive handing down of power, and excessive retention of profits was allowed, unity and centralization were ignored and this quite seriously weakened overall interests and the regulation and control capacity of the central authorities. This produced a series of effects including imbalance between total supply and total demand, excessive distribution of national income, and inflation. For a time, our reforms and development faced difficulties, and it was necessary to implement administrative measures to forcibly carry out improvement and rectification. In terms of the relationships between the parts and the whole, such unbalanced guidance resulted in us sacrificing many benefits. By the end of the Seventh

Five-Year Plan, through two years of economic improvement and rectification, very major achievements had been realized, but many questions had not been basically resolved.

Objectively analyzing our major mistakes over the last few years in handling the relationship between the parts and the whole and pointing out their dangerous nature is beneficial to us in deepening our understanding of these lessons and in avoiding such mistakes again in future.

Seen in national terms, the major mistake in recent years in terms of the relationship between the parts and the whole is that some localities and departments have one-sidedly advocated partial development and stressed partial interests, and this has affected the whole. In economic life, this has been mainly manifested in the following aspects: 1) In terms of the speed of development, they have only seen the advantages high-speed development has for the regional society and economy and have not seen or not considered the effects on overall development. This has resulted in an expansion of local interests, an overheated economy, repeated correction and repeated infringements and chronic problems which are difficult to deal with. 2) In terms of construction investment, they have ignored specific local conditions and advantages and fallen all over themselves seeking projects from the state. There is much vying on all sides with the result that financial, material, and personnel resources are excessively dispersed, projects which should be guaranteed are not guaranteed, and projects which should be shelved are not shelved. This seriously affects the next stage of economic development. 3) In terms of industrial and product structures, they ignore the guidance of upper-level industrial policies and proceed from projects which provide partial interests. Thus, they engage in "small but complete" duplicate construction. Not only has this meant that, on the overall state level, the proportion of processing industry is too great and the product structure is out of balance, but an economic situation involving small-scales, high energy consumption, high material consumption, and low efficiency has appeared, and this has severely restricted scientific progress and the improvement of labor productivity. 4) In terms of resource deployment, in seeking local or departmental interests they ignore central planned arrangements, and greatly engage in production outside the plans. In order to gain high added-value, they stop their raw materials from being allocated outside, divide up markets and impose regional blockades. This seriously obstructs the optimal deployment of resources. Not only does this affect the development of resource-processing provinces and regions, but it also affects the development of the resource-producing provinces and regions. 5) In terms of distribution, they excessively concern themselves with partial interests, meaning that the national income is excessively slanted towards enterprises, regions and individuals. There are even some localities which, under the pretense of engaging in preferential policies, retain taxation which should be handed up. Not only does this

result in decreased state accumulation, and financial strengths which should be centralized not being centralized, but it also results in a decline in the capacity of the state to engage in regulation and control of the overall economy. At the same time, it exacerbates shortages and spurs on inflation. The various abovementioned actions will inevitably produce the beginnings of selfish departmentalism and decentralization, government orders will not be implemented and everyone will go their own way. If this continues, it could well give rise to chaos in social and economic life.

If these various things are not restricted and overcome, our construction and development will meet very great difficulties.

Of course, the reasons for the abovementioned manifestations and dangers are complex, with some related to structural problems and others involving imperfect systems. However, their ideological basis is a one-sided ideological view which only sees partial interests and does not see overall interests. We should recognize that it is a good thing that the localities and the enterprises have a bit more enthusiasm and that their intentions are not necessarily bad. However, Marxists believe in the unity of motives and results; and, in practice, we cannot only consider enthusiasm, much less should we exploit the loopholes in our own systems. Now, as we cast our eyes back over the abovementioned phenomena and the effects they have had in the past and have at present, we deeply recognize how important the correct handling of the relationship between the parts and the whole will be in achieving the goals of the Eighth Five-Year Plan and the 10-Year Program.

In Understanding and Handling Relationship Between Parts and Whole, We Need To Establish Overall View and See Overall Interests as More Important Than Anything Else

Materialist dialectics holds that regardless of which things people are trying to understand, they should see them as wholes. That is, they should understand and grasp them as a sum total of all aspects, relationships, and elements within the thing. If one tries to understand and grasp specific aspects, relationships, or elements of a thing without proceeding from the links of the whole, it will be impossible to understand the thing in a correct and overall way.

What do we mean by the whole? The whole refers to the entirety of a thing. Comrade Mao Zedong once pointed out: "Any war situation that acquires a comprehensive consideration of its various aspects and stages forms a war situation as a whole."¹ Relative to the thing as a whole are its parts. They are various aspects, relationships, and elements which form the thing and form the various stages in the overall course of development.

In structural terms, there is a clear difference between the parts and the whole. Although the parts constitute the whole and the whole cannot be divorced from its parts, the whole is not a mechanical assembly of the parts

or a simple piling up of the parts. Rather, it is a complex new structure formed through complex links between the various elements. For example, China is composed of 30 provinces, municipalities and autonomous regions. The central authorities represent the interests of all nationalities throughout the country and exercise supreme state power, while the localities not only do not have such power, but must fully bring into play their initiative and enthusiasm under the unified leadership of the central authorities.

Seen in functional terms, the function of the whole is not equivalent to the sum of the functions of the parts which constitute it. In *Das Kapital*, Marx pointed out: "Just as the offensive power of a squadron of cavalry or the defensive power of a regiment of infantry, is essentially different from the sum of the offensive or defensive power of the individual cavalry or infantry soldiers taken separately, so the sum total of the mechanical forces exerted by individual workmen differs from the social force that is developed when many hands take part simultaneously in one and the same individual operation, such as raising a heavy weight, turning a winch, or removing an obstacle. In such cases, the effect of the combined labor could either not be produced at all by isolated individual labor, or it could only be produced by a great expenditure of time, or on a very dwarfed scale."² In *Anti-Duhring*, Engels not only cited Marx's exposition on cooperation being greater than individual force, but also cited Napoleon on how French cavalymen were inferior to the Mamelukes, but that as the French were more disciplined and organized, in battle they were able to defeat the Mameluke forces. In ancient China, Prince Wei of Qi and his chief minister Tian Ji had a horse race. They each put up three horses—their best steed, a medium-grade horse, and a poor-quality horse. The prince's horses were all superior to the chief minister's horses, and thus the minister lost all three races. However, later Tian Ji took the advice of Sun Bin and pitted his worst horse against the prince's best horse, his best horse against the prince's medium-grade horse and his own medium-grade horse against the prince's poorest horse. In this way, he was able to win two out of the three races. All of the above examples fully show that the role of the whole is greater than the sum of its parts.

In the relationship between the parts and the whole, the whole always proceeds from the goal of its own optimization. It makes plans for its various parts, aspects, and elements; sets down their position and role in the whole and coordinates; and controls their development in a certain direction. Thus, the whole plays the guiding role and the interests of the whole are greater than the interests of the parts, and the whole commands and controls the parts. Comrade Mao Zedong pointed out: "Communist Party members must understand the principle that partial needs must be subordinated to overall needs. If an idea is feasible in a partial context, but not feasible in the overall situation, the partial must be subordinated to the overall. The opposite is also the case. If something is not feasible in the partial situation, but is

feasible in the overall situation, the partial must be subordinated to the whole. This is the viewpoint of considering the overall situation."³ Also, in "Rectifying the Party Style," he repeatedly warned the whole party: "We must urge concern for the overall situation. Every party member, all specific work, and all words and actions must take the interests of the whole party as their point of departure, and absolutely must not violate this principle."⁴ Our country is a country where public ownership forms the main part, and the national economy is a unified whole. This requires that all sectors of the national economy, all regions and all departments must subordinate themselves to the state industrial policies, product policies, enterprise organizational policies, and regional policies; subordinate themselves to the guidance of the central planned economy; and unwaveringly implement all laws, regulations, and disciplinary regulations of the party and the state. Only in this way will we be able to attain sustained, stable, and coordinated social and economic development.

In actual work, Fuyang Prefecture has placed great stress on educating cadres at each level to implement the viewpoint of considering the overall situation, and has stressed that individual interests must be subordinated to collective interests, partial interests must be subordinated to overall interests, and minor principles must be subordinated to major principles. For example, our Fuyang Prefecture is a cotton-producing region and in recent years, in a situation where various areas have been greatly engaged in setting up small cotton mills and have been vying with the state for raw materials to obtain the added value, we have not made any such moves. Last year, our region saw a quite large increase in cotton output, and we firmly implemented the state policies on purchase and allocation of cotton, positively took measures, implemented the various encouragement policies, and actively purchased 500,000 dan of cotton. We exceeded the state purchase plans by 25 percent, and fulfilled both in terms of schedule and volume the state's plan for 200,000 dan of cotton for allocation and transfer. This supported state construction and also satisfied the needs of local cotton mills. During the economic improvement and rectification, we subordinated ourselves to the overall situation, firmly implemented the state financial, taxation, and price inspection policies, and handed up to the state 4.4 million yuan in fines and confiscated property, and engaged in overall sorting out of the "subtreasuries." In accordance with the state's industrial policies for saving energy and restraining the development of highly-polluting industries, we have closed down, suspended, merged, or switched the production of over 3,000 small high energy-consuming brick and tile plants and over 100 small breweries, which wasted many materials and caused great pollution. Although this resulted in the locality losing some immediate benefits, it saved energy for the state, protected environmental resources, and made some due contributions to development on a greater scale.

In Handling Relationship Between Parts and Whole, We Must Look Squarely at Partial Interests and Strive To Bring Into Play Enthusiasm of Both Parts and Whole

By basing ourselves on the overall situation and seeing the interests of the whole as higher than everything else, we will be able, to the greatest possible degree, to reduce blindness and short-term actions in decisionmaking. However, we must not ignore the existence of the parts or of partial interests. This is because the whole cannot be divorced from the parts. Without the parts there would be no whole. "Whole things cannot exist independently of the parts."⁵ Thus, every comrade and especially leading cadres, when considering problems and making major decisions, must not only keep the overall situation in mind, but must also understand that the whole is composed of parts.

Of the multitude of contradictions within a thing, there will certainly be a major contradiction, while among the many parts of a thing, there will be a part which plays a decisive role on the whole. For example, in chess, one wrong move can lead to the entire game being lost. That one part has decisive significance for the whole situation. Chess is like this and warfare is also like this. Comrade Mao Zedong, on the basis of the rich experiences provided by the Chinese revolutionary war, especially stressed that we should place great importance on those parts which are of decisive significance to the whole. He pointed out: "In the history of warfare, there have been those who have, after successive victories in battle, suffered a single defeat, which has sometimes undone all the victories they achieved. There have also been those who, after numerous defeats, have achieved a single victory and this has produced an entirely new situation. Here, the 'successive victories in battle' and the 'numerous defeats' are both partial things which did not play a decisive role on the overall situation, while the 'single defeat' and 'single victory' are the decisive things." Similar examples can be found everywhere in our actual lives. For example, our country's national economy is composed of many sectors, professions, industries, and regional economies. Of these many parts, agriculture is the part which plays a decisive role. It is the basic industry. Only if agriculture is grasped well will we be able to avoid the emergence of major twists and turns in the national economy. Since the Third Plenary Session of the 11th CPC Central Committee, we first carried out economic reform in the rural areas, implemented the contract responsibility system on a household basis with remuneration linked to output and swiftly raised grain output. This promoted the development of diverse operations in the rural areas and promoted the development of industry and other types of operations. However, subsequently, we misread the situation and held that the agricultural problem had already been basically resolved. Thus, we relaxed leadership over this part which still played a decisive role. The result was that not only did fluctuations appear in grain production, but there were harmful effects throughout the entire national economy.

Further, because of the unlimited expansion and unlimited development of the scope of things, things which in one situation are whole are, in another situation, only parts. Likewise, some things which are parts in one situation may become whole things in another situation. Thus, the relationship between the parts and the whole is a relative one. For example, a locality is a part relative to the whole country or a whole province, but as far as a county or a prefecture is concerned, the locality is a whole. As another example, the Eighth Five-Year Plan is a component part of the economic development during the entire initial stage of socialism, but as far as each year of the plan period is concerned, the plan is a whole. This requires that we do not fall into ossified metaphysics by making the whole and the parts absolute things. Rather, in accordance with changes in time, place, and conditions, we should always place our focus on those questions which have decisive significance for the overall situation.

In recent years, in actual work, at the same time as stressing the interests of the center and the interests of the whole province, Fuyang Prefecture has also placed some stress on the partial interests and special nature of subordinate units. In our work, we have not gone in for "models" and have not required uniformity or required that everyone to do one and the same thing. As long as they did not violate state laws, regulations, or policies, we gave them room to move, and supported and encouraged their development. For example, in accordance with the advantages and characteristics of Haozhou City, which produces a large volume of white spirit (gujingong wine), flue-cured tobacco, tung wood, and Chinese medicinal materials, and is also a state-level famous historical and cultural city, we formulated a development strategy for "wine-making townships, medicinal material areas, tobacco, and tung tree regions and a light industry, commercial, and tourist city." This is intended to greatly develop the medicinal materials, tobacco, and tung tree production as well as the processing industry. We did not place a limitation on such production simply because it might affect grain or oil production. Facts have proven that this method, which fully considers the various characteristics of different areas and treats each area accordingly, is beneficial to motivating the enthusiasm of the parts, and beneficial to tapping the development potential of the parts. In this way, it promotes the overall development of Fuyang Prefecture.

During the Eighth Five-Year Plan, in developing the overall economy, how is Fuyang Prefecture to arrange its own industrial structure and define the mainstay industry? That is, which industry should it set down as the part playing the decisive role? The situation in Fuyang Prefecture is as follows: Agricultural population constitutes 93 percent of the total population of the region and its cultivated land constitutes 1 percent of the national total. During the Seventh Five-Year Plan, agricultural output value constituted nearly 60 percent of the prefectural GNP; national income derived from agriculture constituted 65 percent of total national income in

the prefecture; and about 80 percent of gross industrial and foreign trade export value came from agricultural products and processed products. Thus, we believe that the basis and focus of the economic development of Fuyang Prefecture is agriculture and also that our potential and hopes lie in agriculture. During the Eighth Five-Year Plan, we can only engage in industrial deployment in accordance with the idea of combining industry, agriculture, commerce, and trade, and in a way in which we "center on agriculture to run industry and run industry well to promote agriculture." We are preparing to fully draw in the technologies radiating from Shanghai and to establish with Shanghai wide-ranging, stable, and diverse cooperative relationships in the areas of the economy, technology and resource exchange. In this way, we will build Fuyang into a production, processing, and export base for agricultural and sideline products and a skilled labor export base. For a great number of agricultural and sideline products, such as medicinal materials, tung wood, peppermint, dried sweet potato, maize, cattle, and goats, we must develop processing industry groups in various systems, so that superior quality finished products can enter Pudong and enter the international market. At the same time, in order to guarantee the development of the national industrial base of Shanghai, we will provide more superior quality raw materials and semifinished products to make a greater contribution to the overall interests of the country!

In brief, in handling the relationship between the parts and the whole, we must act in accordance with the following principle: When there is a contradiction between the overall interests and partial interests, the partial interests must be unconditionally subordinated to the overall interests and when overall interests and partial interests are basically the same, and there is no clash of principle, we must adopt the principle of concurrent employment of the measures of combination, concurrent consideration and subordination, and must use diverse means including economic, administrative, legal and education measures. When overall and partial interests can be combined they should be combined, when they can be concurrently considered, they should be concurrently considered, and when they cannot be unified, the partial interests must be subordinated to the overall interests.

Marxist philosophy has provided us with a scientific world view and methodology in respect of the relationships between things. As long as we continually draw in its scientific nourishment, strive to overcome the limitations of the subject, and bring into play subjective dynamism and creativity, we will be able to correctly understand and handle well the relationship between the parts and the whole and fully bring into play the enthusiasm of the central authorities and the localities. In this way, our cause of socialist modernization will see the emergence of a vibrant situation of rapid progress.

Footnotes:

1. *Selected Works of Mao Zedong*, People's Publishing House, June 1991 Edition, Vol 1, p 175.
2. *Das Kapital*, Vol 1, p 362.
3. *Selected Works of Mao Zedong*, People's Publishing House, June 1991 Edition, Vol 2, p 525.
4. *Ibid*, Vol 3, p 821.
5. *Ibid*, Vol 1, p 175.

PROVINCIAL

Impeded Materials Circulation System in Qinghai
92CE0048A Xining QINGHAI JINGJI BAO in Chinese
12 Sep 91 p 2

[Article by Luo Yaozhong: "The Current Situation Materials Circulation Situation, Conflicts, and Solutions"]

[Excerpt] Qinghai's goods and materials circulation efforts, since the latter half of the year before last, after having gone through the longest period of a weak market that has had no precedent since the establishment of the PRC, tried and tempered by both purchase and sale difficulties, and shouldering dual burdens of guaranteeing supply and encouraging sales, earned notable achievements. With government steps to open markets and push production, the situation during the first half of 1991 had a favorable turnaround, but due to government readjustment of the economic system (such as planning) and government policies (such as pricing), sluggish effects in Qinghai and for other reasons, Qinghai's goods and materials circulation situation is very grim.

I. A Pressing Situation

From January to July this year, nationally the goods and materials system showed an increase in purchase and sales of 2.3 percent. This kind of over-sharp turnaround is the same as the previous continued downslide, an abnormal situation. In comparison, purchases in Qinghai dropped 6.5 percent, and sales dropped 2.6 percent. Qinghai became one of the few provinces that had a general drop in purchase and sales. Although enterprises under the direct jurisdiction of the province fulfilled 69.8 percent of the annual purchase and sales task, a 3.8 percent increase over 1990, profits only fulfilled 43.3 percent of the plan, debts increased, and losses increased. The above circumstances indicate that Qinghai's goods and materials circulation has yet to move out of a slump and stop the downslide. It is difficult to assess future prospects.

II. Difficult Situation

The original difficulties and problems have not yet been completely solved, and some new difficulties and problems challenge us. The major ones are the following:

One is the further reduction of mandatory plans, and gradual increase in guided planning and market adjustment. This year, mandatory plans and distribution level for steel and lumber (rejected and abandoned targets) was 20 to 30 percent less than last year's, level of ordered goods declined 6-7 percentage points, the proportion of mandatory planned distribution of steel was only 42 percent, nonferrous metals only 35 percent, lumber only 26 percent, cement only 12 percent, fulfillment of in-plan contracts dropped, allocation did not match orders, orders did not meet delivery, and state-run goods and materials enterprises depended on greatly weakened "imperial grain" resources, increasing difficulties in guaranteed supply.

Two is the narrowing of price differences inside and outside the plan, and the ratio of high-priced goods increased. After the country revised steel product prices into two A and B categories, this year's orders for our steel products administered under price group A was only 30 percent, those in B category close to the market price was 70 percent; high-priced nonferrous materials in-plan was about one-half, materials whose pricing was inverse inside and outside planning were in glass, lumber, alkalines and some steel materials, and more consumers abandoned quotas. Now cement prices have smaller price differences with steel and lumber, enterprises directly under provincial jurisdiction need only have a slight decrease in the purchase and sales price difference to affect profit margins by 3 million yuan, creating great difficulty for enterprises to expand business and improve efficiency.

Three is the decrease in the share of market channels, and expansion of business channels. At present, multifaceted competition is inevitable, a unified market is not yet formed nor nurtured, competition lacks rules or order, and unfair and improper competition increases. In warehouse storage, main channels only occupy 20 percent, the remaining 80 percent is scattered among different units. Main channels have only around 40 percent of the market share. This situation is an actual or potential threat to state-run goods and materials enterprise channels.

[passage omitted]

Factory Leaders Shoulder Government Responsibilities

92CE0058A Beijing JINGJI GUANLI [ECONOMIC MANAGEMENT] in Chinese No 8, 5 Aug 91 p 40

[Article by the China Industrial Economics Association: "Something Worth Noting: Factory Leaders Can Put Only One-Third of Their Energy Into Management Work"]

[Text] According to a survey by news reporters of some factory leaders (managers) at Henan's large- and medium-sized state-run enterprises, various sectors of society are now interfering with enterprises more and more. Factory leaders are hard put to cope with all sorts

of inspections, evaluations, and assessments, and are busy dealing with internal and external human relations in their enterprises, which become more complex every day. They have little energy to study production and development at their enterprise; at most only one-third of their time is devoted to managing. Under these circumstances, it is hard to raise the management and economic efficiency level of the enterprise.

As we understand it, at present the various kinds of interference aimed at factory leaders come mainly in three areas:

First, there are demands to set up organizations for special purposes. All government departments regard the factory as the grass-roots unit of state power. Even the courts demand that large enterprises set up court rooms. This causes internal organizations at enterprises to multiply rapidly. At the No 3 Zhengzhou National Cotton Mill, administrative offices increased from 23 to 36. At the Kaifeng Brewery, administrative offices increased from 15 to 31. Some organizations are redundant; for example, in the family planning area an association, an office and a committee are all required. Moreover, each organization must be provided with personnel according to a certain proportion of the number of workers, and the factory leader must personally assume leadership of every undertaking, otherwise, the various departments of government will exercise veto power, or deduct points from his evaluation for promotion, or give his enterprise a bad name.

Second, there are numerous inspections and evaluations of all kinds. Since the institution of proficiency evaluations for promotion, all sorts of inspections and evaluations come in endless procession. In 1990, the Luoyang Bearing Factory went through a total of 91 inspections of 11 different kinds including energy, equipment, measurement, quality, education, family planning, finances, prices, sanitation, and safety). Enterprises that are economically efficient have even more inspections and evaluations. The Luoyang Oil Refinery has an inspection or assessment, on average, every three days. Most inspections and evaluations are essentially a form of social entertainment and exchange of gifts and favors. The head of the Luoyang Glass Factory must receive an inspection team almost daily, and at most he may receive four inspection and evaluation teams in a single day.

Third, there are pressures on enterprises to employ laborers. In recent years population and employment pressures in cities and towns are great. Although surplus workers in enterprises are widespread, the government still demands that enterprises themselves solve the employment problems of younger relatives of their workers, of soldiers who are entering the civilian work force and of graduates of the "five universities" (the "after-hours university," the "television university," etc.). Enterprises in Kaifeng, in an average year, must employ 6,000 to 7,000 people. The Luoyang Glass Factory must accept 300 to 400 workers every year. In many

enterprises there will be three generations of one family working at the same factory, one relative bringing in another, with complex connections on the female side, making it more and more difficult to manage enterprises.

Judging from the situation as told by some of Henan's factory leaders, state-run enterprises actually bear many government functions, and are kept busy managing society. Now, except for crematoriums, state-run large- and medium-sized enterprises seem to have organizations for every function. Workers and their families want their enterprises to feed them, clothe them and house them from birth to death. By contrast, the production activities that should be the basic responsibility of enterprises meet with excessive government interference. One can't help but ask: what does China want from its enterprises? What is the fundamental mission of state-run enterprises? Factory leaders are appealing to us to strengthen the vitality of large- and medium-sized state-run enterprises, to put energy into improving their external environment, to thoroughly implement the "Enterprise Law," to reduce various kinds of unnecessary interference from society, and allow factory leaders more time and energy to concentrate on management of production at their factory.

Jilin Vice Governor on Industrial Production

*SK1110004191 Changchun JILIN RIBAO in Chinese
9 Aug 91 p 2*

["Excerpts" of speech by Wang Yunkun, vice governor of Jilin Province, delivered at the provincial industrial conference on 19 July: "Uplift Spirits, Overcome Difficulties, and Fight a Crucial Battle for Raising Economic Efficiency"]

[Text] Comrades:

The theme of this industrial conference held by the provincial government is to conscientiously implement the guidelines of the seventh plenary session of the fifth provincial party committee, further emancipate our minds, uplift our spirits, fight a crucial battle for raising economic efficiency mainly by putting an end to deficits, increasing profits, and enlivening the circulation of funds, and ensure a fundamental improvement in the industrial economy of the entire province.

A steady upturn in the province's industrial production emerged in the first half of this year following the low rate of growth last year. The quotas for output value, quality, new products, and safety defined early this year were fulfilled or overfulfilled but economic efficiency, stockpiles of goods, and consumption of materials and energy resources were far from being fundamentally improved. Some of the problems were still very serious and we should not be optimistic about the situation.

Despite the upturn in production, the accumulative growth rate declined every month. From January to June, the province created 26.133 billion yuan in industrial output value, up 7.3 percent from the corresponding

period last year. However, the growth rate was 6.1 percentage points lower than that of the country and the accumulative growth rate and the province's ranking in the country declined every month. This showed that the foundation for our province's industrial growth in the first half of this year was very weak and the growth was, in essence, merely a restoration of production.

Progress was achieved in adjusting the product mix but tasks remained very arduous. Compared with the corresponding period last year, the output value of good-quality products rose by 18.8 percent, that of export products rose by 11.2 percent, 1,369 new products were developed, and profits and taxes increased by 177 million yuan, or 16.4 percent. Judging from the overall situation, despite the new progress in the adjustment of the product mix, the problem of the low level and poor quality in our province's products has yet to be fundamentally solved and the product mix further improved.

The income from sales picked up fairly rapidly but stockpiles of goods remained large. From January to June, the income from sales of the budgetary industrial enterprises was 9.34 billion yuan, up 8.8 percent from the corresponding period last year, and the province's commodity retail sales totaled 12.91 billion yuan, up 13.5 percent. The amount of funds tied up in stockpiled goods of the budgetary industrial enterprises was 4.41 billion yuan, up 21.8 percent.

The shortage of funds was intense but still conspicuous was the problem of funds being tied up in stockpiled goods. The scale of the industrial loans to be issued to our province approved by the head office of the state industrial and commercial bank for the first half of this year was 660 million yuan. By the end of May, the province's industrial loans had increased by 730 million yuan. However, the shortage of funds was not alleviated and more than 1 billion yuan was needed to pay the various taxes and fees and to buy raw materials and fuel for the first half of this year. On the other hand, the problem of funds being tied up in stockpiled goods was very serious. From January to June, the amount of stagnant circulating funds of budgetary enterprises was as high as 9.93 billion yuan, up 15.5 percent from the corresponding period last year.

Despite the notable improvement in the province's revenue and industrial profits and taxes, the economic efficiency of budgetary enterprises was very poor. In the first half of this year, the province's revenue totaled 2.09 billion yuan, up 7.5 percent from the corresponding period last year. Of the total, industrial profits and taxes reached 1.47 billion yuan, up 6.7 percent. The growth rate of the revenue was higher than that of the output value. However, the economic efficiency of the province's budgetary enterprises was very poor. In the first half of this year, they created more than 1 billion yuan in profits and taxes, down 10 percent from the corresponding period last year. Of the total, profits reached more than 300 million yuan, down 27.4 percent. Loss-making enterprises numbered 410, increasing by 42 over

the corresponding period last year and accounting for 39.9 percent of the total; and their deficits exceeded 280 million yuan, nearing the annual deficit control quota when allowing for incomparable factors.

Review of industrial production for the first half of this year showed that our province's economic operation was gradually becoming normal but difficulties had yet to be totally eliminated. A conspicuous problem was that economic efficiency was out of step with the steady upturn in production and the task to achieve fundamental improvement remained very arduous.

The guiding thoughts for industrial production for the second half of this year are to further emancipate our minds, invigorate enterprises, uplift our spirit, overcome difficulties, fight a crucial battle for increasing economic efficiency, and ensure fundamental improvement in the industrial economy.

Efforts should be made to successfully carry out the following five specific tasks:

1. We should exert great efforts to sell our products successfully.

While enhancing the sense of marketing, strengthening the means of marketing, and doing a good job in after-sale service, we should make efforts to further implement various policies for promoting sales and use them adequately, flexibly, and successfully.

Regarding the rewards to sales personnel, industrial and commercial enterprises at all levels may work out their own policies in line with their specific conditions or work out specific policies for specific products. The percentage of sales expenses to be drawn may be decided based on how products are unsalable and how payments for products are collected. Enterprises assuming full responsibility for marketing products, in principle, should not set aside more than 60 percent of the contracted expenses for uses other than as wages. Some enterprises may also decide on the percentage by themselves in line with their specific conditions and use the remaining as individual income. The practice of encouraging all personnel to participate in marketing should be adopted provincewide. Personnel who directly help enterprises sell overstocked and unsalable products are entitled to relevant rewards of the enterprises. Enterprises do not have to pay business taxes and market management fees for selling the materials they have collected as a recall of debts after these materials are verified by local departments in charge of the enterprises, industrial and commercial administrations, and tax departments. If these materials are raw materials, enterprises are also allowed to sell them. Enterprises that pay a large amount in taxes and earn small profits and which fail to fulfill their contracted profit quotas due to disposal of stockpiled goods may calculate their taxes and profits in a unified manner and use the increased taxes to offset the profits. Products under the control of the departments at and below the provincial level (except for the selected state commercial units whose business,

prices, employment, and distribution are decontrolled) should be handled in line with the documents of the provincial government and the provincial price bureau. Regarding the products whose control should be relaxed as decided by the province, all localities should enforce the regulations of the province and must not withhold them. Restrictions on the business scope, the variety of goods, and the business measures of state and cooperative commercial enterprises and the departments engaged in both production and business should be relaxed except for the categories particularly stipulated by the state. We should allow all the purchases of the commodities under special control which are directly used in production, management, scientific research, teaching, and medical treatment, such office equipment as typewriters, fax machines, and duplicating machines, and the specially controlled cotton knitwear, color television sets, refrigerators, motorcycles, and bicycles produced by the province as long as the funds used in the purchases come from proper sources. The writing paper and printing paper produced by the province will not be put under special control for the time being. All localities may suspend the collection of the stipulated extra charges on the commodities under special control for the time being. The practice of putting color television sets produced by the province under the exclusive control of the departments designated by the state should be canceled. While persistently putting chemical fertilizer, pesticides, and plastic sheets produced by small plants under control, industrial and commercial units should sign supply and marketing contracts for these products and production enterprises are allowed to sell the above-quota products within or outside the province. These products should be sold at the stipulated prices when sold within the province and at the prices fixed by the enterprises themselves when sold outside the province. Departments designated to sell these products should make this feasible.

2. We should strive to enliven the circulation of funds.

A. We should promote sales to reduce stockpiles of goods and the funds tied up in them. The province has already formulated many policy measures to promote sales to reduce stockpiles of goods. The key is to implement them to the letter. To truly achieve this, the following work should be emphasized. First, industrial and commercial enterprises whose profits decline as a result of sales at reduced prices of stockpiled products (commodities) before the end of 1990 and which register profit reduction or deficits when appraised according to the original profit quotas should make active efforts to carry out measures for putting an end to deficits. Banks should give them loans according to the categories in which they have been originally classified. Second, disposal of stockpiled goods at reduced prices to make up for losses should be completed within the same year in principle or within the definite time of three years when the amount of money involved is too large. Within a definite time, banks will collect interest according to the standard interest rate. When these enterprises have difficulties in

paying taxes, they should submit reports according to the tax management system to obtain approval for tax reduction or exemption. Third, enterprises which still earn profits after selling stockpiled goods at reduced prices may add the reduced amount of profits in their base quotas so that the enterprises' retention of their funds for worker awards and welfare will not be affected due to the reduction of prices. Enterprises assuming full responsibility for reducing deficits may retain award and welfare funds in the same way as profit-making enterprises do.

B. We should clear debt default to break the debt chains and strive to enliven the circulation of funds. First, under the unified arrangements of the offices for clearing debt default under governments at all levels, banks should allocate certain amounts of funds to help clear the debt default of enterprises under the charge of the same specialized bank and the key enterprises under the charge of other specialized banks. Second, every means should be adopted to make financial departments issue necessary funds, refunds, and subsidies as soon as possible. Third, the system of overdue fines should be conscientiously carried out so that the discipline for final accounting can be strictly enforced. Regarding the enterprises which collect and deliver payment through banks, beginning 1 September, the paying enterprises should pay overdue fines as well as the original sum of money when they are proven to have refused to make the payment without justifiable reason. When the unjustifiable refusal of payment is approved by the personnel in charge of this work in banks where these enterprises open accounts, the banks involved should be responsible for half of the overdue fines. Banks should have adequate reserve money. Overdue fines should be paid by the banks involved when they lack adequate reserve money for the payment or when the personnel in charge willfully delay the payment of bills. In this way, people's idea of "having an advantage in delayed payment" can be change into "having a disadvantage in delayed payment."

C. We should exercise proper control to optimize the disposition of funds. First, we should fix production and loan quotas in line with sales and combine the work to adjust the product mix with that to adjust the pattern of loans. After conditions are clearly investigated, we should give priority to readily marketable products, properly support the products of average sales, and strictly control the production of unsalable products when we supply loans, energy resources, means of transportation, and raw materials in line with the standards stipulated by the State Council. Second, funds to be allocated to the "double guaranteed" enterprises and the key enterprises of the province on a preferential basis should be allocated in a timely manner. Support should be given on a priority basis to the loss-making enterprises which have good prospects for ending deficits and which have developed readily marketable new products. Small loans for technical transformation should be issued to them at different times, and financial departments at

corresponding levels should grant them proper subsidies for interest payment within their capacity. In the supply of funds, these enterprises should not be managed as we manage those that produce the products regarded as "old burdens" and loans should also be given or recalled in a different way.

D. We should open up the market and broaden the channels for the supply of funds. On the premise of voluntary participation, enterprises may issue bonds to their own staff members and workers. The interest rate of the bonds may be up to 20 percent higher than that of bank's fixed savings deposits for the same period. They may also issue short-term three-month, six-month, and nine-month bonds to society and the interest rate may be 10 percent higher than that of the savings deposit of the same grade. They should obtain the approval of the People's Bank of China before they issue the bonds. Issuance of less than 2 million yuan of bonds at one time should be reported to city and prefectural branches of the People's Bank of China for screening and approval and issuance of more than 2 million yuan of bonds at one time should be screened and verified by local People's Banks of China and then submitted to the provincial People's Bank of China for screening and approval. Active efforts should be made in absorbing foreign capital and developing joint ventures. Personnel rendering meritorious service to bringing in foreign capital may be properly rewarded. The amount of cash award may be decided by cities, prefectures, and autonomous prefectures themselves in line with the amount of the foreign capital brought in, the length of the term, and the interest rate.

E. We should raise funds extensively to replenish our own funds. To replenish our own funds, we should start with the following work. First, all enterprises should strictly follow state stipulations to use all the surplus money resulting from price rises for the goods in stock to replenish their circulating funds. Second, all enterprises should follow stipulations to use 10 to 15 percent of their after-tax profits to replenish their circulating funds. They will be exempted from the energy and communications key construction funds and the budget regulating funds collected on this money. Third, on the premise that the base quotas for tax and profit delivery are not adjusted, the practice of setting aside one percent of the sales income to replenish the circulating funds should be adopted provincewide. The funds used to replenish the circulating funds will be listed as an item of before-tax expenditure and this practice will remain unchanged for five years.

3. We should make all-out efforts to put an end to deficits and increase profits.

The work to put an end to deficits and increase profits should be focused on reform and the restructuring of organizations. More efforts should be made to implement the policies and measures for this work. First, we

should succeed in improving the leading bodies of loss-making enterprises. After appraisal, leading bodies, especially major ones, that are regarded as lacking unity, good quality, good management, and measures to open up new situations should be adjusted when deemed necessary. Meanwhile, competent management personnel for opening up new situations, adopting good measures, and operating plants should be selected from various sources to assume the major leading work. Second, major leaders at the provincial, city, and county levels should assume responsibility for the work of key loss-making enterprises. They should fulfill their leadership responsibility, go deep into enterprises to clearly investigate conditions and reasons, work out measures to counter deficits together with the staff members and workers, and organize forces to implement them. Third, we should help loss-making enterprises adjust their product mix, develop new products, and find ways to put an end to deficits. Financial departments should allocate some funds for enterprises that produce the new products with high starting levels and faster returns to use as loans or subsidies to interest payment. Banks should give them loans on a priority basis and tax departments should give them special tax reductions or exemptions in line with relevant stipulations. Scientific research units or colleges and universities should establish ties with loss-making enterprises for the purpose of technology transfer and help them develop new products and new technology so that scientific research achievements will be turned into productive forces rapidly. Units benefiting from this should reward the units or persons that transfer the scientific research achievements or share benefits with them. Fourth, we should promote the work to put an end to deficits and increase profits through cooperation and merger of enterprises. All the profits and taxes created by loss-making enterprises should be left for those with which they merge to use to solve all leftover problems. For one to three years, no extra interest will be collected for the overdue loans of merged enterprises. Under special circumstances, discussions may be held to solve problems whenever they arise. When the enterprises that merge suffer reduction of profits due to the consolidation of loss-making enterprises, neither the performance of their managers nor the income of their staff members and workers will be affected. Their profits will be regarded as not having been reduced and welfare and award funds will be drawn from them accordingly. When the efficiency of the merged loss-making enterprises shows no improvement within a short period of time, the income of their staff members and workers should be lower than that of the staff members and workers of the merging enterprises. Fifth, in line with relevant State Council regulations, governments at all levels should order the loss-making enterprises whose products are shoddy, high-priced, and unsalable, which have no way to develop new products, and whose average production and marketing rates are lower than 50 percent to carry out rectification within a definite time. When the rectification shows no good results, they should order the enterprises to close down or suspend production, financial departments should

verify and issue maintenance funds to them, and banks should handle them according to relevant regulations. Enterprises that fail to effect a change in their outlook within the definite time should be handled according to the "bankruptcy law." When the application of the "bankruptcy law" is difficult, various measures should be adopted to handle them. Loss-making enterprises of a fairly large scale which have a fairly large number of personnel should decentralize the accounting procedures to have lower levels manage accounting independently and be responsible for their own profits and losses. Small loss-making enterprises may be managed in the same way that extra-budgetary enterprises are managed. They may also be leased or sold. Their managers should ensure the safety and integrity of state assets and the basic wages for their staff members and workers. Enterprises that lose money due to poor management should strictly keep the wages for their staff members and workers from rising, and new loss-making enterprises and enterprises that fail to put an end to deficits must not issue comprehensive reward funds.

To encourage enterprises to stop losing money as soon as possible, old loss-making enterprises capable of putting an end to their deficits by the end of this year may issue the comprehensive award funds up to the prescribed maximum amount. Those which reduce their deficits by more than 70 percent as compared with the previous year may issue the comprehensive award funds equivalent to two months' average wages for staff members and workers and those which reduce their deficits by 50 to 70 percent may issue award funds equivalent to one month's average wage. Specific work related to this should be handled by pertinent departments and labor departments. While reducing deficits, we should pay close attention to the increase in the profits of large profit-making enterprises. In the supplies of funds, energy resources, and raw materials, arrangements should be made first for the 44 large profit makers under the special management of the province so that they can increase production and profits to make up for deficits.

4. We should make more efforts to adjust the product mix.

In the second half of this year, the province's industrial product mix should be adjusted to adapt to market demand, to curb the production of unsalable goods, to promote development of new products, and to improve quality. In summary, the adjustment is aimed at supporting the products in great demand, curbing those unsalable, promoting those that are new, and creating those of good quality. Supporting the products in great demand means that we should adopt preferential policies to greatly support and increase the readily marketable products. Curbing the unsalable products means that we should adopt resolute measures to strictly prevent enterprises from continuously producing the products that are unsalable and stockpiled. The State Council recently issued a "circular on strictly preventing enterprises from continuously producing stockpiled products." We must have a firm and prudent attitude when

implementing this "circular." After coordinating with various localities, departments, and bureaus, planning and economic commissions should first put forward specific opinions on its implementation and then solve problems step by step. Promoting the products that are new means that we should rely on scientific and technological progress and widely apply new technology, new measures, and new materials to develop the new products of high technological content and high added value that can earn large amounts of foreign exchange, sell well in the market, and are highly competitive. Creating products of good quality means that we should create good-quality and brand-name products to raise the level and world standing of our products.

5. We should make all-out efforts to strengthen enterprise management.

We should concentrate efforts to succeed in the crucial battle for raising economic efficiency. The foundation for this endeavor is to improve enterprise management. Efforts should be exerted both in and outside enterprises to strengthen their management. We should conscientiously strengthen comprehensive quality control to improve product quality, conscientiously strengthen cost accounting to reduce material consumption, and uphold high standards to manage enterprises strictly.

In strengthening enterprise management, we should properly handle the relationship between immediate and long-term interests and between measures to bring about temporary solutions and those to effect a permanent cure and start with the work of improving management mechanisms within enterprises in our endeavor to change the operation mechanisms of enterprises. First, starting with basic management, we should improve field management, basic work, and specialized management, pay attention to the formulation, promulgation, and enforcement of rules and regulations as well as technological, managerial, and work standards, and strive to make enterprise management more systematic, standard, and scientific. Second, starting with the improvement of the economic responsibility system within enterprises, we should currently make great efforts in reforming their distribution system to break the common big pot, boost the enthusiasm of staff members and workers, and gradually establish an operation mechanism centering on the economic responsibility system of enterprises. Third, we should persistently take people as the foundation and strengthen the management of personnel to improve their quality.

In strengthening enterprise management, we should continue to emphasize the activities to learn from the Jilin Chemical Industrial Company and raise the grade of enterprises. In the second half of this year, we should continue activities to "catch up in one area, increase in two areas, attain the targets in three areas, and improve in one area" to lay a solid managerial foundation for the activities to create good-quality, new-variety products with good economic efficiency. Enterprises which have been upgraded but where management has deteriorated

should be ordered to make rectification and improvement within a definite time. When good results are not achieved in rectification and improvement, their title and the various encouraging policies for them should be canceled and they should be punished according to contracts.

Comrades, this year is the first year for implementing the Eighth Five-Year Plan. It has a very great significance to successfully fulfill the various plans for this year. We must continue to implement well the guidelines of the seventh plenary session of the party Central Committee and the sixth and seventh plenary sessions of the fifth provincial party committee, enhance confidence, give prominence to priorities, expand measures, strive to attain the target of fundamental improvement in the industrial economy, and make new contributions to developing Jilin's economy.

FINANCE, BANKING

Insurance Companies Expand Business Overseas

92CE0027A Beijing JINGJI CANKAO BAO in Chinese
5 Sep 91 p 1

[Report by Li Wenchuan: "To Ensure the Running of Foreign Trade and Economic and Technological Cooperation, China Will Vigorously Develop Overseas Financial and Insurance Markets"]

[Text] According to information learned at the general manager conference of the overseas institutions of the Bank of China and insurance corporations held on 4 September, in the days to come China will vigorously develop overseas financial and insurance markets, and create a group of new institutions to satisfy the needs of the new situation of foreign trade and economic and technological cooperation.

Information provided by the main actor of China's overseas financial business—the Bank of China—indicates: The primary task for the overseas branches in the next five years' development is to increase deposits by 15 percent annually to continuously increase capital strength, and serve domestic construction. All branches should maintain deposits of local overseas Chinese and China's overseas institutions, and effectively use such securities-related fund-gathering means as bonds and commercial notes, but also endeavour to develop business. In the Hong Kong and Macau region, while further consolidating the Bank of China's financial leadership role in the region, it is necessary to create new offices in a planned way, and to increase domestic lending and investment in an aggregate sense. In the Americas, it is necessary to take the United States as the axis, and to gradually develop into the North, Central and South American regions. In the Asian-Pacific region, on the basis of the existing network connecting the three points

of Hong Kong and Macau, Tokyo, and Singapore, energetically and cautiously develop business into the South-east Asian region. In the European region, institutional building will also be accomplished in a step-by-step way.

Enhancing institutional-network building and improving business management standards to join the ranks of the strong in the international insurance market is one important step in the effort to build the People's Insurance Corporation of China into a comprehensive, internationalized corporate conglomerate. According to the briefing given by the corporation's chairman of the board of directors Li Yuming, the People's Insurance Corporation will take Hong Kong and Macau as the main bases in the effort to develop overseas insurance markets, establish a firm foothold in the three big economic regions of the European economic region, American region and Asian-Pacific region in view of the world economic configuration, and accomplish the task of establishing competitive development bases in the 90s. In the Asian-Pacific region, gradually endeavour to develop business in Indonesia and Thailand where there exist some previous bases, with the existing institutions in Hong Kong, Macau, and Singapore as the bases, and at the same time set up offices in Japan and Indonesia as soon as possible. In Europe, use the China Insurance (U.S.), Ltd. in London as the base, and gradually develop into other EC countries in an effort coordinated with the offices in Germany. In the Americas, first establish bases for business development in the United States, and then develop into Canada and South America.

According to information, in recent years, China's overseas financial and insurance business have overcome a series of unfavorable factors such as the fast changing international political and economic situations, and has achieved great progress in its operations. At the end of 1990, there were 413 overseas institutions of the Bank of China, scattered around 13 countries and areas. By the end of June this year, the overseas branches' total assets reached \$83.51 billion, an increase of 50.8 percent over the same period in 1989. Various deposits reached \$37.19 billion, an increase of 51.6 percent over the same period in 1989. At the same time, there has been some improvement in quantity and quality regarding the overseas branches' lending. By the end of June this year, the amount for lending reached \$18 billion, an increase of 31.4 percent over the same period in 1989. Overseas branches have conscientiously implemented government policies, and used many means to vigorously support domestic development of an externally oriented economy, introduce advanced technologies, and promote foreign trade expansion. The Bank of China group in Hong Kong and Macau alone has cumulatively provided HK \$3 billion in loans for projects in the mainland during the Seventh Five-Year Plan period.

At the same time, China's overseas insurance institutions have also expanded the volume of their business. Foreign-related premiums increased from \$25 million in 1979 to \$120 million in 1990. The structure of business

has also undergone rather big changes. Property insurance has developed very fast, life insurance has begun, and reinsurance business has developed to some degree. The China Reinsurance in Hong Kong is on the top of the list of the specialized reinsurance companies in Hong Kong. Insurance institutions have developed from points to areas, and has gradually achieved comprehensiveness. The six overseas branches and five offices in 1979 has developed to over 60 branches with various coverage.

Triangle Debts Causes, Countermeasures

92CE0043A Beijing JINGJI RIBAO in Chinese
21 Sep 91 p 2

[Article by Qi Moujia (7871 6206 3946): "The Causes, Solutions to Triangular Debts"]

[Text] "Triangular debts" is one major problem in China's economy now. Because it has a large interference on economic work, the fact that clearing is followed by debt, the fact that it must be continuously rooted out, its logic is muddled, and it is attracting people's attention more and more, a lot of viewpoints and methods for dealing with it have been put forward. Here I would like to offer my reflections on this problem, as a reference for other comrades.

I. Some Considerations

First, there is the relationship between the shortage of capital and triangular debts. Some comrades say that a lack of capital has created triangular debts. I do not subscribe to this view, I believe that triangular debts have created the shortage of capital, because triangular debts have caused the funds used by most enterprises to greatly exceed normal levels.

Second, triangular debts are not an unsolvable problem, but the method for solving them is not to anyone's liking, particularly there is no integrated control. Looking at previous practice, continuously increasing capital investment leads to increased triangular debts, and handling overstocked products promotes new overstocking. Now people think that getting a handle on capital construction projects is "radical reform," but in reality it is at most only able to achieve temporary relief of triangular debts in the capital construction sector, and has no effect on solving the overall problem of triangular debts.

Third, the key reason for nonstop repeated clearing of triangular debts, and clearing of debts is followed by renewed debt, is that what people believe is not consistent, is mutually restricting and mutually canceling, peoples' minds are not working together, and their actions are not unified.

II. Factors Giving Rise to Triangular Debts

A. Everyone knows that one factor causing triangular debts is the irrational product mix. But why the irrational product mix has not been solved over a long

period of time is not well understood, and this problem must receive a high degree of attention and conscientious research.

1. There is blindness in production. In economic work one very large conceptual mistake is to consider that under the conditions of a commodity economy, micro planning is not important, and it is only necessary "to enliven." In fact, the outstanding feature of a commodity economy is its rigorous micro planning. This planning does not come from above but from market order for goods, because only this type of planning can ensure that there will be no overstocking of goods, ensure the continuity of reproduction, and ensure economic efficiency. Production without orders for goods is blind production that is out of joint with market needs. This blind production is a direct factor causing irrational product mix, and is also a direct factor causing triangular debts over the last several years.

2. Two methods for calculating statistics directly or indirectly encourage the irrational product mix.

First, the output value calculation method is irrational. Taking the old method of treating the realized price during the product economy as the output value and using it in the market economy period is one of the biggest faults of this method, and has led to many undeserved reputations and really harmful practical jokes.

(a) Because the production of overstocked products can be taken into account in calculating the output value, and output value is also one important index in assessing the success of the leadership work of enterprises and different levels of party and government, this fosters an irrational product mix.

(b) The production of overstocked products can not only be taken into account in calculating the output value, but also in paying taxes, therefore it has been understood and supported by finance and tax departments.

The other type is the total sales calculation. Making this the same as the output value is also continued from the period of a product economy. At that time, banks were highly disciplined in settling accounts, the collection and acceptance effectiveness was very high, and there also was no selling on credit. Now the situation has changed, and while invoices or signed contracts are used to calculate the sales total, there is no distinction made concerning withdrawing currency from circulation, and this has caused many problems.

(1) Equating total sales with output value is also an important examination index (in the circulation area), and the old calculation method could conceal the irrational product mix, and create false sales of products and real overstocking (this number in comparison to the figures for overstocking in industrial enterprises would greatly surprise people).

(2) In the same way, the old calculation method was beneficial for paying taxes, and therefore for the same reason obtained the understanding and support of the finance and tax departments.

(3) The old calculation method fostered selling on credit, because nobody knew that selling on credit would easily be several times more than real sales which result in capital being removed from circulation. Hence selling on credit became more and more common, and triangular debts also became more and more serious.

3. Three types of behavior in economic work paved the way for irrational product mix.

First is the combining of goods, selling goods in great demand and slower selling goods.

(a) The combining of goods is an important way to move overstocked products, and is also an important factor in maintaining an irrational product mix.

(b) The reason people feel strongly about combining goods is that it can reduce overstocking in industry and increase sales for businesses. Though it appears on the surface to indicate prosperity, it is in reality an extremely wasteful practical joke.

The second is selling on credit.

(1) Using selling on credit to invigorate the economy is a mistake. Practice proves that selling on credit has maintained the irrational product mix, and is the primary cause of chaos in the order of commodity transactions and in economic work.

(2) Selling on credit is a major cause of triangular debts and is the reason that clearing of debts is followed by further debt.

Third is sales commissions and covert sales commissions.

(a) Sales commissions and covert sales commissions have the function of "special passes" and "vanguard commanders," they can pave the way for irrational product mix, and create no obstacles to overstocking of products, or the circulation of fake and inferior goods.

(b) Sales commissions arouse the "enthusiasm" of people to maintain the irrational product mix, sales commissions fatten many people, and create overstocking and scrapping of goods.

(c) Using sales commissions as a measure to stimulate the economy is a very big mistake. It not only creates tremendous economic losses, but also creates hidden political dangers. Experience proves that those who benefit from chaos in the economic order often are resistors and opponents of rectification and continuing reform.

B. Banks as guarantors of local economic efficiency or interests have been weakened so much so that they have lost their state bank functions and macro-level regulation

functions, which has resulted in a high degree of loosening of discipline in settling accounts, and collection and acceptance are in name only. Objectively, banks have become the beneficiaries of triangular debts, because triangular debts facilitate many loans, generate large amounts of interest, generate many opportunities for using customer funds, and the tighter funds, the more people must look to the banks. Therefore, the fact that banks have not solved triangular debts is not without reason.

C. The fact that the economic legal system is soft on debtors is advantageous. Under a situation where interest on credit is high, letting others pay interest is the key to increasing economic efficiency and getting rich. At present, many units and individuals do not engage in business, but greatly increase their wealth, and even achieve both fame and wealth, and some have already become advanced units or advanced individuals. Because economic legal system work does not meet the needs of a commodity economy, and there is no ability to handle disputes involving creditor's rights and debtor's liabilities, the creditor's legal rights and interests are not properly protected, and debtor's liabilities are even more uncontrolled. What emerges is that the debtor's side demands "good treatment" and a "sales commission" from the creditor's side, and even demands that the creditor accompany the debtor in dancing, otherwise he will not return the money. This is a result of the great degree of laxity of the economic legal system.

III. Measures and Methods for Solving Triangular Debts

A. Comprehensive control of the irrational product mix.

1. Strengthen planning of production enterprises, progressively set up an order form based on enterprise planning, to achieve production which avoids blindly sending out goods when there is no order form.

2. Change the two types of calculation methods.

(a) Replace output value with total sales to calculate and appraise.

(b) Use realized withdrawal of funds from circulation to calculate total sales.

3. Correct three types of behavior.

(a) Prohibit lending on credit and covert lending on credit.

(b) Prohibit combining of commodities and covert combining of commodities.

(c) Prohibit sales commissions and covert sales commissions.

B. Impose a high fine for delayed payment.

To establish and enforce an example for economic activity, a high fine for delayed payment should be

imposed, and at least make it higher than the interest rate to make it a force against the debtor.

C. Strengthen the economic legal system, handle disputes between creditor rights and debtor liabilities in a timely manner, preserve the legitimate interests of the creditor, and achieve honesty and high efficiency.

D. The way to untie triangular debt chains is through joint action by banks, convert seller's debt into buyer's debt, and change triangular debts among enterprises into credit debt between enterprises and banks.

E. Banks must put state interests first, and give full play to their function in controlling triangular debts.

1. Enforce discipline in settling accounts, conscientiously and properly handle collection and acceptance.

2. Strictly implement the task of seizing and cancelling licenses and impose fines for delayed payments.

3. Responsibly handle the conversion of seller's debt into buyer's debt.

4. Provide a fund reputation advisory service for customers.

F. Industrial and commercial enterprises must link themselves with the actual situation, and must formulate feasible measures for clearing up old debts and not form new debts. They cannot on the one hand decry triangular debts while on the other create them.

MINERAL RESOURCES

Precious Stone, Jade Mines Raise Production

OW2010094591 Beijing XINHUA in English
0844 GMT 20 Oct 91

[Text] Beijing, October 20 (XINHUA)—Over 200 precious stone and jade mines have been discovered in about 20 provincial areas in China and the annual output of various precious stones has come to over 1,500 tons.

East China's Shandong Province and central China's Hunan Province are the country's major diamond producing areas.

The coastal area from north China's Helongjiang Province to south China's Hainan Province and the fault systems in the Jinsha, Nujiang, Lanchang and Yarlung Zangbo River basins are China's major ruby and sapphire producers.

Nearly 1,000 factories in China with about 300,000 employees specialize in precious stone and jade processing and their annual export of precious stone and jade products has reached 300 million U.S. dollars.

SMALL-SCALE ENTERPRISES

Zhejiang Enterprises Seek Technology Improvement

92CE0047A Beijing ZHONGGUO XIANGZHEN QIYE
BAO in Chinese 9 Sep 91 p 1

[Article: "From Developing Capacity to Improving Quality: Township Enterprises in Zhejiang Seek Benefits in Technical Progress"]

[Text] The Zhejiang provincial government suggested, at the latest all-province working conference on town and township enterprises, that scientific and technical progress should be first of all the work of town and township enterprises. This clearly shows that Zhejiang town and township enterprises are starting to enter the important transitional period of seeking benefits from technical progress.

Zhejiang deputy governor Xu Xingguan [6079 5887 6307] said at the meeting that, in the next ten years, the development of Zhejiang's township enterprises cannot continue to rely on opening new vendor's stalls and extensive improvements; instead they must turn from big development to big improvement, from expanding quantity to improving quality, and still maintain measured growth. He said that town and township enterprises must regain their former might and make great improvements. That is to say, they must concentrate strictly on technical progress, improve their technology, equipment, technical level, and the quality of their personnel.

Zhejiang's township enterprises, following their great development in the 80s, already constitute half of the industry in Zhejiang. During the period of the Seventh Five-Year Plan, township enterprises accounted for 55.5 percent of the net increase in Zhejiang's overall industrial output value. But since 1985, 64.6 percent of growth in Zhejiang's township industry has depended on extensive expanded reproduction, and the contribution of technical progress was only 27.9 percent, which shows the potential of technical progress to invigorate Zhejiang's township enterprises.

The Zhejiang provincial government demands the technical transformation of township enterprises. First, put effort into expanding new technology, adopt new techniques, develop new products, and raise the quality and grade of products. The "principle battlefield" for county and municipal scientific committees must be to advance technical progress of town and township industries and implement spark plan projects.

The Zhejiang provincial government requires that related departments increase investment in science and technology. First, establish and improve a scientific and technical system that combines enterprises own funds, bank credit, financial funds, and spark plan development funds. The portion of sales revenue that an advanced, technically progressive enterprise can retain

for technical development, will increase from 1 percent to 2 percent. Banks at various levels must steadily increase the proportion of loans for technical equipment and the spark plan, and repayment of equipment loans must continue to remain in the local area and used for technical transformation of township enterprises. Governments at all levels must each year set aside a designated fund to be used for technical progress and new products development. Second, encourage technical transformation of enterprises. Qualifying enterprises can repay loans with before tax revenues or receive tax abatements, and the amount of these tax abatements cannot be less than the level of repaying loans before taxes. Third, encourage enterprises to develop new products. Provinces may reduce or exempt the product tax for new products, and increase value added taxes in one or two years.

The Zhejiang provincial government also requires that township enterprises truly strengthen their corps of technical workers, and work to raise the quality of their workers. They must continue to adopt various measures and pursue various means to recruit talented people from outside. They must place more importance on developing human talent. They must set up steadily factory-run research offices, and actively develop connections with scientific study units and institutions of higher learning, accelerate the application of scientific achievements, and establish a technical corps that will combine importing, using, and promoting new ideas.

Township Enterprises Step Up Exports

92CE0047C Beijing JINRONG SHIBAO in Chinese
11 Sep 91 p 1

[Article by Wang Baoqing (3769 1405 3237): "Reform and Opening Up Stimulate Export-Oriented Economic Development: Township Enterprises Show Clear Improvement in Their Ability To Earn Foreign Exchange"]

[Text] In the wake of China's opening up to the outside world, the achievements of township enterprises in outward-oriented economic development have been outstanding. During the period of the Seventh Five-Year Plan, township enterprises for all of China delivered goods valued at 48.5 billion yuan, and wage income earned from compensation trade arrangements with foreign concerns came to 8.1 billion yuan, which together are equivalent to \$13 billion, for an average annual growth of 26.6 percent. Up to now, foreign exchange earned this year from exports has increased 40.36 percent over the same period last year.

The most recent figures show that, for all of China, the number of township enterprises making products for export has grown to 56,700, and 342 are export base enterprises. At the same time, township enterprises have made encouraging progress in bringing in capital and advanced equipment from abroad. By the end of last year, the 6,987 joint and cooperative ventures set up

across China by township enterprises in cooperation with foreign businesses, plus the compensation trade arrangements, had attracted \$3.4 billion in foreign capital, establishing a good basis for raising the level of technology and management in township enterprises. Right now there are already 15 township enterprises that are beginning to expand outside of China, to establish factories elsewhere in the world.

The establishment of a joint trade-industry-agriculture export product production system has enhanced the ability of township enterprises to earn foreign exchange. For over three years, a total of 439 special trade-industry-agriculture projects have been approved for technical transformation, and special-project discount loans worth 256 million yuan and government loans of 30 million yuan have been arranged. These are low-cost investments that give quick results and are very effective in earning foreign exchange. On average, the development period is only nine months, and every one yuan invested can increase foreign exchange earning capability by \$1. At the same time, the quality, variety and profitability of the export products made by township enterprises improves, and consequently strengthens competitiveness of export products in the international marketplace.

It is said that during the Eighth Five-Year Plan 100 million yuan each year of discount loans for technical transformation of special trade-industry-agriculture projects will be allocated. By 1995, township enterprises for all of China will realize deliveries of goods in foreign trade worth 100 billion yuan and earnings from work performed under compensation trade arrangements will reach 20 billion yuan.

Shandong Enterprises Enhance Economic Results

92CE0047B Beijing ZHONGGUO XIANGZHEN QIYE
BAO in Chinese 13 Sep 91 p 1

[Article by Liu Peifang (0491 0160 5364) and Song Qinling (1345 4428 3781): "Township Enterprises in Shandong Improve Quality and Increase Economic Efficiency"]

[Text] Shandong town and township enterprises have already begun to reap benefits from the thorough unfolding of the "Year of Quality, Variety and Efficiency" activities. In the first seven months, the gross value of industrial output for town and township enterprises in Shandong came to 65.24 billion yuan, an increase of 30.1 percent over the same period last year, and completed 63.65 percent of the annual plan. Economic efficiency was also better than last year. In the first half of the year, township industries realized profits totalling 3.12 billion yuan, or 17.45 percent more than the same period last year, and paid taxes of 1.134 billion yuan, a 20.06 percent increase.

During the "Year of Quality, Variety and Efficiency" activities, Shandong's main approach was first to

improve quality control. The main point was to concentrate on strengthening the basis of quality control and establishing a complete, effective quality assurance system. This year quality control organizations everywhere have improved, and both the organizations and their personnel are getting down to business. The whole province is expanding and implementing the entire range of quality management, aggressively organizing mass-style quality control activities, especially activities on the theme of "getting it right the first time in key operations." In the first half of the year, product quality inspections or spot checks were carried out all over Shandong, and 90 percent of the major products tested showed steady improvements in quality. Province-wide, 88.27 percent of products tested in quality inspections and samplings met standards, which was 3 percentage points above the goal, and high-grade products accounted for 6.79 percent of total output value.

Second was vigorously promotion of technical progress, with emphasis on developing new products and technical transformation. They increased investment, placing major funds on promoting technical progress in enterprises, at the same time actively establishing lateral ties with large-scale state-run enterprises, institutions of higher education, and scientific research units, thereby guaranteeing higher quality and grades for new products and technologies. According to statistics, in the first half of the year Shandong township enterprises spent 1.2 billion yuan on technical transformation, amounting to 54.34 percent of all investment. Township enterprises developed 1,627 new products, fulfilling 77.48 percent of the annual plan.

Third was to take active measures to increase economic efficiency. They seized opportunities at times when sales were improving to strengthen sales work. On the basis of serious market research, and taking advantage of market trends, they strengthened the organization of their sales forces, perfected sales policies, instituted a sales responsibility system, and fully aroused the initiative of their salesmen. Moreover, they promoted sales by calling industrial and commercial convocations, established sales networks in other parts of China, expanded sales outlets, holding various kinds of promotional events, and expanding market coverage. In the first half of the year, sales income for township industrial enterprises in Shandong was 38.9 billion yuan, an increase of 29.9 percent over the same period last year. Enterprises everywhere also made a point of making up deficits and increasing surpluses as a way to raise economic efficiency. In the first half of the year, the number of township industrial enterprises in Shandong that were losing money reduced by 263, and total losses dropped 8.16 percent.

TRANSPORTATION

Company Orders Four Planes From Sweden

OW0910125991 Beijing XINHUA in English
1158 GMT 9 Oct 91

[Text] Beijing, October 9 (XINHUA)—For the first time, China has ordered airplanes from a Swedish airplane manufacturing company, according to Wang

Yuna, spokeswoman for the China Aviation Supplies Corporation, which is in charge of the deal.

The four planes, designated Saab 340B, are to arrive next March and will go into operation for China Southern Airlines, she said.

Wang said that the planes, which cost a total of over 8.2 million U.S. dollars, have two engines and 36 seats each. They are mainly used on short trips, she added.

Northwest China Airlines To Open New Routes

OW2210072691 Beijing XINHUA in English
0636 GMT 22 Oct 91

[Text] Lanzhou, October 22 (XINHUA)—China Northwest Airlines, headquartered in this capital of northwest China's Gansu Province, will open three new air routes 1 November.

The new routes will be Urumqi-Lanzhou-Wenzhou, Lanzhou-Beijing-Ningbo and Lanzhou-Beijing-Nanchang.

On the same day, the company will resume two scheduled flights for winter season. They are Lanzhou-Changsha-Guangzhou and Lanzhou-Xian-Hangzhou-Xiamen.

Qinzhou-Beihai Railway To Be Operational in 1994

HK2310023591 Nanning Guangxi People's Radio
Network in Mandarin 1130 GMT 19 Oct 91

[Text] The foundation stone laying ceremony of the Qinzhou-Beihai railway was solemnly held in Hetang-tun, site for a new railway station in the suburbs of Beihai City, on the afternoon of 18 October. Qinzhou-Beihai railway is one of the major key projects of Guangxi in the Eighth Five-Year Plan period.

The railway starts from Qinzhou Station of (Nanning-Fangcheng) railway in southwest Guangxi, passes Nanli and Hepu, and ends in Beihai City. The overall length of the trunk line is 98.63 kilometers. The construction of this railway will begin in Qinzhou on 1 November 1991. It is expected that the railway will be completed and open to traffic on 1 July 1994.

After completion of the Qinzhou-Beihai railway, a comprehensive transportation network of railways, highways, and ocean shipping will take shape between Qinzhou Prefecture and Beihai City. In addition, Qinzhou-Beihai railway will also link Nanning-Kunming railway, which is under construction, with Beihai City and Fangcheng Port, thus providing the southwest region with a most convenient passageway and a relatively economical sea mouth. This is significant to the economic development of Guangxi and its southwest region and to our efforts to further carry out opening up.

Present at the ceremony were Li Zhenqian and Chen Ren, vice chairmen of the autonomous regional people's government, as well as leading comrades of the Ministry

of Railways, local railway associations, the Hong Kong branch of XINHUA, Liuzhou Railway Bureau, Beihai City, and Qinzhou Prefecture.

Wei Chunshu, member of the Central Advisory Commission, and Tao Aiying, vice chairman of the Committee for Nationality Affairs under the National People's Congress, also attended the ceremony.

Guizhou Electrifies More Railways

*OW1010091791 Beijing XINHUA in English
0742 GMT 10 Oct 91*

[Text] Guiyang, October 10 (XINHUA)—Three more railways have been electrified and opened to traffic in southwest China's Guizhou Province.

The three electrified railways are Guiyang-Kunming railway, Guiyang-Zhuzhou railway and Guiyang-Chongqing railway. The overall length of the railways is 1,008 kilometers, 13.8 percent of China's total.

AGRICULTURE

Poor Harvest, Rising Demand Send Soybean Prices Up

HK0311065591 Beijing CHINA DAILY (BUSINESS WEEKLY SUPPLEMENT) in English 3 Nov 91 p 3

[By staff reporter: "Soybean Prices Keep Rising With Threat of Poor Harvest"]

[Text] The trading price of soybeans will maintain strong growth from this winter till next spring due to rising demand, falling stocks in warehouses and forecasts of a poor harvest, according to the Beijing-based daily newspaper, ECONOMIC INFORMATION.

According to the Zhengzhou Grain Wholesale market, the volume of soybeans traded at the market—which is designed to be the country's first grain forward market—has been increasing in recent months.

The fact that more and more traders from around the country are joining the soybean purchasing game in Zhengzhou, capital city of central China's Henan Province, will consolidate the upward trend for some time, the report said.

Figures from the Heilongjiang Grain, Edible Oil Wholesale and Trading Market as well as from the Dalian and Qinhuangdao ports also indicated improved soybean prices.

The main contributing factor is demand from the flood-hit areas, where local supplies of various grains were ruined and local governments have had to purchase large amounts of soybeans from other provinces for the coming winter and spring.

The floods have also forced many farmers to find temporary jobs in cities, which has helped raise demand for

soybeans because soybean sprouts are an important vegetable at dinner tables of urban residents during the cold season.

The article said low grain prices have also stimulated development of the breeding industry, which requires more and more bean dregs.

Other factors affecting soybean trading prices include sharp reduction of stocks in warehouses and forecasts of a poor harvest.

Henan Province, an important soybean producer, has sold all its stocks of soybeans while Heilongjiang Province in northeast China, another major producer, has seen a 35 percent drop in its stocks compared with the figure at the beginning of this year. The key soy producing provinces also suffered crop losses caused by heavy rains.

This year's output in Henan and Shanxi will be much less compared with last year and Heilongjiang looks set to suffer a 15 percent drop in production from last year's 3.55 billion-kilogram output figure.

Experts also predict that price rises on the world market will affect domestic prices as major producers such as the United States, Brazil, Argentina and the USSR all suffered production drops.

China each year exports up to 500,000 tons of soybeans and domestic firms are now active in exports because of the bounce-back of soybean trading prices on the Chicago futures market, the newspaper said.

Achievements in Soil Sciences Aid Land-Use Program

*OW0411042991 Beijing XINHUA in English
0303 GMT 04 Nov 91*

[Text] Changsha, November 4 (XINHUA)—China has recorded a number of notable achievements in soil science over the past few years, and many research programs now rank at the forefront internationally.

The country recently conducted a full-scale investigation of its soil resources thereby providing a scientific basis for its land-use program. At the same time, Chinese scientists have improved the country's soil by using advanced technology, ensuring the rational use of fertilizer, improving conservation of water and soil, and protecting the environment, as well increasing productive capacity. All of these factors have played an important role in increasing crop production and enhancing regional development.

One of the outstanding achievements is the land selection program for planting rubber trees, which was a top prize as a state invention. Advanced technology has allowed China to construct rubber trees plantations at 18 to 20 degrees north latitude, an achievement which has greatly increased rubber production. At present, China ranks sixth amongst the world's rubber producing countries.

The achievements also include the introduction of high quality varieties of poplar trees and comprehensive development of low-yield land in the Yellow and Huaihe River valleys.

In addition, research related to rice field soil, red soil and mountain soil, as well as the amount of nitrogen and trace elements of various soils has reached international levels.

The China Society of Pedology, which joined the International Society of Soil Sciences in 1979, now offers regular publications which are distributed to a number of other countries.

Cereal, Oils Import Volume Jan-Sep 91

HK0511092891 Beijing CEI Database in English
5 Nov 91

[Text] Beijing (CEI)—Following is a list showing China's import volume of cereals and oils in the January-September period of 1991, released by the General Administration of Customs:

Item	Unit	1-9 1991	1-9 1990
Cereals	ton	7,719,426	10,621,882
Wheat	ton	7,063,132	9,698,906
Soybean	ton	496	540
Sugar	ton	744,274	826,643
Animal oils and fats	ton	60,522	59,433
Vegetable oil	ton	427,913	716,128
Other oils	ton	790,351	714,402

State Pig Purchases Increase This Year

HK0511011991 Beijing CHINA DAILY in English
5 Nov 91 p 3

[By staff reporter: "Record Set as Pork Production Advances"]

[Text] China's pig-breeding industry set a new record in the first eight months of this year with the number of pigs purchased by the State rising about 8 percent over the same period last year, according to a Ministry of Commerce official.

Both pig production and consumption rose sharply from 1986 to 1990, thanks to efforts by the State and pig-breeding farmers.

The amount of pigs raised, purchased and consumed increased respectively by 15.7 percent, 29 percent and 18.9 percent in 1990 compared with 1985, making the Seventh Five-year Plan period a time during which China's pig production and pork consumption saw the fastest development since 1949.

The number of pigs being bred and sold for slaughter grew by 2.5 percent and 6.6 percent in the first half of

this year over the same period a year earlier and the amount of pigs purchased by the State from January to August this year increased 7.8 percent over last year, a record.

The increase was partly attributed to last year's bumper grain harvest, which totalled 435 million tons and fueled farmers' enthusiasm for further developing the pig-breeding industry.

According to State production targets for the Eighth Five-year Plan period (1991-95), the number of pigs ready for slaughter will reach 320 million head and the average consumption of pork for each person will rise to 18 kilograms by 1995, an increase of 3.8 percent and 8 percent over 1990.

To fulfill the State's plans and sustain steady development in the pig-breeding industry, the Ministry of Commerce has worked out three new policies which will focus on State instructions to promote steady and coordinative pig breeding and pork-price reform, aimed at cutting down State subsidies to the industry.

The new measures urge big and medium-size cities to supply 30 percent of their pork needs and to import the rest from the country's 10 major pig-breeding bases such as Hunan and Sichuan provinces, whose pig output makes up about 20 percent of the country's total.

The northeastern provinces, one of China's main grain-producing areas, which used to rely on pork supplies from other regions, are also called on to develop their own specialized pig-breeding industry so as to raise the local supply level.

Construction of national and local live pig wholesale markets has also been urged by the ministry as an important measure to develop the pig-breeding industry and improve the country's control of pig production for the Eighth Five-year Plan period.

Guangdong Increases Grain Purchase Loans

92P30030 Guangzhou GUANGZHOU RIBAO
in Chinese 16 Sep 91 p 1

[Excerpt] Since this summer, Guangdong's Agriculture Bank, in accordance with this year's provincial grain purchasing plan, has raised capital to support grain departments in purchasing summer grain. By the end of August, agricultural banks throughout Guangdong had together provided 1.65759 billion yuan in grain purchase loans, with 2.19201 billion yuan yet to be furnished.

This year, the task of purchasing and storing grain went relatively smoothly. By the end of August, the provincial grain departments had purchased 1,641,457 tons of grain—109 percent of this year's plan. [passage omitted]

Rural Market Demand To Sustain Steady Growth

*OW0411100691 Beijing XINHUA in English
0851 GMT 4 Nov 91*

[Text] Beijing, November 4 (XINHUA)—Increases in incomes will permit Chinese farmers to buy more goods from the market this winter and next spring, the "CHINA COMMERCIAL NEWS" reported in its latest issue.

In the first half of this year, the per capita cash income for Chinese farmers increased 10.7 percent over the same period last year. If nonagricultural incomes are included, the rural market demand is predicted to maintain a steady growth.

Inner Mongolia's 1991 Grain Output

*SK0411155091 Hohhot Inner Mongolia People's Radio
Network in Mandarin 2300 GMT 3 Nov 91*

[Text] In the situation in which the climate and conditions have been far inferior to last year's, this year our region has still reaped a bumper harvest in grain production, with the total output reaching 9.585 billion kg. This further shows that our region has entered a new stage in the comprehensive grain production capacity in the course of implementing the strategy of developing farming with science and technology.

Sichuan Water Conservation Leads to Record Harvest

*OW0411090991 Beijing XINHUA in English
0836 GMT 4 Nov 91*

[Text] Chengdu, November 4 (XINHUA)—Though hard-hit by a summer flood, China's most populous

province, Sichuan, expects a record-high grain harvest this year owing to good water conservancy facilities.

Governor Zhang Haoruo announced recently that Sichuan has increased its grain output by 750 million kilograms this year against last year's figure of 4.3 billion kilograms. Sichuan, accounting for about one-tenth of China's grain output, has had record-high grain outputs for three consecutive years despite grave natural calamities.

This result, the authorities deem, is the product of fairly good water conservancy facilities in the province. Sichuan boasts 9,132 reservoirs, of which one has a capacity of 1.34 billion cubic meters, four have capacity of over 100 million cubic meters each and 116 have capacity between 10-100 million cubic meters each. Its total capacity ranks first in the country. Though the most famous water project of the province—the Dujiangyan scheme—was built in ancient times, the real large water conservancy projects were built after the founding of New China, officials said.

Owing to the improvement, 1.33 million hectares of the land that originally could only grow grain in one season each year were transformed to produce two croppings each year. The average grain output per hectare in irrigated areas has reached 6,750 kilograms, 174 percent more than in nonirrigated areas.

Despite the harvest, more efforts should be made for the construction of water conservancy projects, the governor urged.

The provincial government will allocate a record high 370 million yuan for water conservancy projects in 1993.

Cross-Straits Investment Reportedly Cooling Off*OW2110100391 Taipei CNA in English 0812 GMT
21 Oct 91*

[Text] Taipei, Oct. 21 (CNA)—The mainland investment fever among Taiwan businessmen seems to be gradually cooling off and some companies are even considering withdrawing their investments there, Vice Economic Affairs Minister Wang Chih-kang said over the weekend.

Approved indirect investments in mainland China totaled about 50 million U.S. dollars in the first nine months of this year, far lower than that registered in the same period of 1990, wang reported.

After several years of cross-straits contacts and operations, Wang said, Taiwan businessmen have become more practical than before. As sharp-witted Taiwan businessmen become more aware of the mainland's political and economic situation, he added, their euphoria over cross-straits business prospects has gradually faded.

Wang reported that some companies have asked the Ministry of Economic Affairs to help them withdraw their investments from the mainland. As these companies had started their mainland ventures before the government formally permitted indirect cross-straits investments, he noted, it is not easy for his ministry to provide the assistance they need.

Still, Wang said, his ministry will look for feasible ways to help local companies with interests on the mainland whenever significant changes arise in cross-straits relations or in the mainland situation.

The cabinet-level Mainland Affairs Council is reportedly formulating a package of measures to help local firms, if necessary, withdraw their mainland investments,

The government currently allows local companies to indirectly invest in the production of 3,679 industrial items on the mainland. Official tallies show that 2,503 Taiwan corporations have invested more than 750 million U.S. dollars across the Taiwan Straits. Industry sources, however, said the actual number of local firms with mainland interests exceeds 3,000 and their combined capitalization has passed 1.5 billion U.S. dollars.

Panama Emerges as Top Textile Importer*OW2110095491 Taipei CNA in English 0757 GMT
21 Oct 91*

[Text] Taipei, Oct. 21 (CNA)—Panama has replaced Mexico as the Republic of China's [ROC] largest textile market in Latin America, the Taiwan Textile Federation (TTF) reported over the weekend.

Quoting government tallies, the federation said Taiwan exported more than 25 million US dls in textiles to Panama in the first five months of this year, or 26.4 percent of total Taiwan textile sales to that part of the

world between January and May. The value was 66 percent higher than that registered in the same period of 1990.

TTF attributed the dramatic rise in part to the fact that Panama, a free trade zone, has gradually become a regional textile goods transshipment center. Many garment makers in other foreign exchange-scant Latin American countries tend to purchase gauze and fabrics from Panama, it explained.

Mexico used to be Taiwan's top textile market in Latin America. It took a 25.3 percent share of total ROC textile exports to the region in 1990, TTF said.

Trade Office To Be Established in Moscow*OW1910014791 Taipei Voice of Free China in English
0200 GMT 18 Oct 91*

[Text] The China External Trade Development Council, or CETRA, has received permission from the Soviet Government to establish a Taipei (?World) Trade (?Center) office in Moscow, the source said. CETRA expects the trade office to open before the end of the year, the source added. CETRA has also obtained permission from Yugoslavia and Czechoslovakia to establish trade offices in their capitals. Taiwan opened a trade office in Budapest, Hungary, last year. Vice Economic Minister Chiang Ping-kun said his ministry plans to promote trade relations between the ROC [Republic of China] and East European countries. Hungary and Poland have already granted preferential tariff treatment to the ROC.

Meeting on Intellectual Property Rights Issues*OW2010051591 Taipei Voice of Free China in English
0200 GMT 19 Oct 91*

[Text] The European Economic Community is slated to begin the first round of talks with the ROC [Republic of China] on the intellectual property rights in the middle of next month. High on the agenda are copyrights, trade marks, industrial designs and patterns, and patents in integrated circuits. Furthermore, the existing ROC-U.S. accord concerning intellectual property rights will be drawn as a major reference. According to ROC officials stationed in Belgium, the November talks will be held somewhere on the European Continent. Taipei will dispatch personnel of the Ministries of the Interior and Economic Affairs as well as the Government Information Office to attend.

Computer Executives at Seminar on European Market*OW2310101791 Taipei CNA in English 0832 GMT
23 Oct 91*

[Text] Taipei, Oct. 23 (CNA)—Companies looking to enter the European market in 1992 and beyond need to consider a variety of factors before investing, Crawford

Beveridge, chief executive of Locate in Scotland, suggested Monday at a Taipei seminar.

These factors, Beveridge said, include [passage indistinct] distribution, and availability of qualified workforce.

Locate in Scotland, established in 1981, is the first one-stop inward investment bureau in the United Kingdom, with authority to provide sites and factories, government financing and commercial loans, introductions to subcontractors and suppliers, help with personnel recruitment and continuing advice for foreign firms operating in Scotland.

More than 70 executive from many of Taiwan's leading computer companies gathered at the Sherwood Hotel for the three-hour seminar entitled "Gateway to Europe—Strategic Planning for Foreign Investment."

"Much more must go into the decision making process than just the lower tax rates and the lower-cost environment offered by host countries", said Beveridge at the

seminar jointly sponsored by Locate in Scotland and the Taipei Computer Association.

"Executives in Taiwan must understand exactly why they are locating in Europe, and must establish criteria for their own market, before trying to decide which country is most suitable for their company," Beveridge added.

Camden C. Chuang, chief manager of John Swire & Sons (H.K.) Ltd., Taiwan Branch, [words indistinct] Locate in Scotland's Taiwan representative, Beveridge said. Taiwan companies interested in locating in Scotland may contact Chuang Y.H. Kao, director general of the Ministry of Economic Affairs' Industrial Development and Investment Center, said that the European Community, with its 320 million consumers and an average per capita income of more than 15,000 US dlrs [dollars], will no doubt have a profound impact on the world economy.

Both the government and private sector in this country are well aware that this emerging economic giant will be no less dynamic, powerful and influential than the United States and Japan.

Beijing Seeking Alliance With Moderates*92CE0033B Hong Kong MING PAO in Chinese
18 Sep 91 p 2*

[Article by Liu Chang: "Beijing Seeking Alliance With Moderates After Its Defeat in the Election of the Legislative Council"]

[Text] As demonstrated by the results of the legislative election which just ended, it was poisonous for the candidates to have support from Beijing or be close to Beijing. Jian Fuyi also acknowledged this after the election of the functional groups. In fact, before the election, some candidates who intended to be close to Beijing had the same feeling. They made a proposal to Beijing to see whether they could have the XINHUA News Agency mobilize leftists to support them, and on the other hand maintain the appearance of keeping distance from Beijing. This proposal, however, did not get approval from the relevant personnel of the XINHUA News Agency, which was concerned that it might not be able to use those candidates after it supported them. In fact, it would be feasible for XINHUA News Agency to make such "long-term" investment if it could put the whole thing in perspective.

Many people have pointed out that the "4 June impact" played a role in the defeat of the candidates who were supported by the leftists this time. Hong Kong people are still fearful of Beijing. More fundamentally, however, it should be noted that Hong Kong people are not just psychologically affected by 4 June. In the two years since 4 June, Beijing's policies (particularly those on Hong Kong) were further tightened, and Beijing continued to control Hong Kong in a patriarchal manner. This is why it is difficult for Hong Kong people to establish confidence. This psychological state not only exists in ordinary masses, but also prevails among the leftist camp. It was reflected to some extent in this election.

Several months before the election, the XINHUA News Agency gave orders through its controlled network, and hoped that staff members of the Beijing funded organizations would cast their votes in accordance with the "proposals" of their supervisors. According to estimates of XINHUA News Agency's internal "Election Group of 1991," staff members who were directly employed by Beijing funded organizations and those who might be influenced by Beijing amounted to 500,000 (including 170,000 people under the Labor Union). Although not all of them were voters, they could be a very powerful force when mobilized. There was one point, however, that was not taken into consideration, i.e. whether the majority in the leftist camp would act in accordance with the directives. As far as the writer knows, blue-color workers in the leftist camp were more obedient. But a large number of intellectuals in the leftist camp demonstrated passive resistance (for instance, they refused to register to vote), and even complied in public but opposed in private. When the Labor Union passed onto its branches the XINHUA News Agency's intended list,

all the names were explicitly announced. Many people said that they would vote accordingly. But in some leftist cultural organizations, it was only lightly proposed that the staff vote for those candidates who were familiar with Beijing's operations in Hong Kong. Many people privately indicated that they would not vote as directed by their supervisors. Such internal reactive forces may not have been sufficiently taken into account by relevant parties.

Given the defeat of the leftists in this election, some people believe that Beijing would enhance its forces in the future, and change the image of those who are close to Beijing to pave the way for the election of 1995. But according to experts, in the future Beijing's work will not concentrate on changing the image of its followers. Instead, it will strengthen the alliance with other moderates for two reasons:

1. The change of image cannot be accomplished overnight.
2. It is in line with Beijing's new policy on Hong Kong (actively participating in the affairs of various classes and developing grass-root forces) to strengthen the alliance with moderates. These moderates are easier for the people in Hong Kong to accept.

A member of XINHUA News Agency's "Long-term Planning Group" uttered a few true words when he was chatting with people after the election. Hong Kong people dislike not only the leftists, but also the covered leftists. Therefore, it can be expected that a plan will be made to continue to develop the forces among the moderates. Here, the writer feels pity for the liberals in the leftist camp. In fact, among those candidates who are close to Beijing, some are not traditional leftists. For example, Chen Wanxian was in a dilemma on many issues and tried her best to compromise. The situation of those people are sometimes difficult for outsiders to understand.

Forum on Qualifications of First Chief Executive*91CM0489A Hong Kong PAI HSING [THE PEOPLE]
in Chinese No 243, 1 Jul 91 pp 4-7*

[Article by Lu Keng (7120 6972): "Who Will Be Hong Kong's First Chief Executive?"]

[Excerpt] Recently, I came to Hong Kong to celebrate PAI HSING's 10th anniversary. I was anxious to exchange views on the question, "Who will be the Hong Kong Special Administrative Region's [SAR] first chief executive?", so I asked seven or eight young reporters to join me for dinner at the Foreign Correspondents Club.

Why did I not seek out the experts but instead turned to the young reporters? First, it is a question of universal concern and general interest and not a specialized academic issue. Second, the young reporters have better

sources and are more objective. Three, there are fewer strings to pull, and we can talk freely and speak our minds.

The opinions of the eight reporters, including Chang Chieh-feng [1728 4814 7685], Lao Guan-hsiang [5071 0385 4382], Chiu Chi-feng [8002 0796 2800], Cheng Wei-ming [6774 0251 7686], Wang Chien [3769 0494] (three others specified during our conversation that they did not mind talking but would not want their names disclosed), and my own opinion can be summed up in the following:

One, everybody agreed that the SAR's first chief executive officer must be someone acceptable to all parties, but most importantly to the PRC. In other words, if the PRC disapproves, no matter how smart the candidate, that candidate just will not do. Moreover, the person also must be accepted by the Hong Kong people, that is, even if the person does not have the wholehearted support of the majority of the Hong Kong people, at least he or she is not objectionable.

Two, China must nod its head in approval. Considering the current climate in the mainland, this means being accepted by the eight old men, and most important of all, it means being accepted by Deng Xiaoping and Chen Yun [7115 7189]. As soon as these two nod their heads, the candidate is decided. The problem is, if by that time both old men have been summoned home by Marx, it may take some doing to please all the different parties and factions.

Three, Deng Xiaoping has set a standard for the future administrator of Hong Kong: He or she must "love China, love Hong Kong, and embrace the Basic Law." Loving Hong Kong is not going to be an issue, nor will supporting the Basic Law pose any problem because the chief executive is supposed to be the executor of the Basic Law. The problem lies in loving China. Some people suggest that to love China is not the same as loving the CPC because the country and the regime are two different things. I love this country, but I can still be opposed to the regime or to the government. However, in the CPC's opinion, to love the country means loving the party because the country is led by the party. Anti-communists will not be allowed to take part in Hong Kong's administration, even less to become its chief executive.

Four, besides the "two loves and one support," some people think administrative and management ability is important, too. In other words, it will not do to get an idiot to be the chief executive, and even if the person is smart but does not have administrative and management skills, he or she can still mess things up. To ensure administrative efficiency in the early days of Hong Kong's 1997 transition, perhaps we should look for someone who is currently in the Hong Kong government to be the chief executive. This person may not have deep affection for China but will love Hong Kong, know the cardinal principles, take the overall situation into

account, and will be willing to accept the Chinese government's leadership. For the sake of Hong Kong's prosperity and stability, Beijing, too, will accept this person and so will the Hong Kong people. Like a through train that makes no stops, this will make everybody happy. Weighing the pros and cons, such a person will be the best possible candidate. However, on the flip side, some people feel that a person who once served the British-Hong Kong government is already branded a colonial official, and it is not likely that he or she will be approved by the CPC.

Five, according to former U.S. President Eisenhower, the best leader is one who "governs without doing anything." In discussing possible candidates for Hong Kong's first chief executive, someone suggested finding a person who will "govern without doing anything" and leave everything to the existing superb civil service system and preserve the functions of the capitalist society. Thus, Hong Kong's first SAR chief executive need not be very capable, so long as he or she can act in the spirit of the Basic Law.

Six, since Hong Kong is already a world-class free-trade center and financial center, someone suggested that Hong Kong's first chief executive should be one who understands economics. Hong Kong's future prosperity and development will depend heavily on the economy. If the person only knows politics but is ignorant about finance and economics, he or she may ultimately kill the "goose that lays the golden eggs" and ruin things for everybody. With Hong Kong's development in mind, we should rule out those social advocates who want a free lunch for all. As for the industrialists and entrepreneurs, they may know economics, but because of possible conflicts of interests, extra precaution must be taken in selecting a candidate.

Seven, the appearance, age, sex, personality, and nationality of the future chief executive were also discussed. Some suggested that the person must at least be presentable, should be between 40 and 55, preferably male, hopefully not a political opportunist, and should not be a non-Chinese foreign national, namely a British, U.S., or Japanese citizen. Being Chinese refers to the PRC and not the ROC—this is simply a political reality and has nothing to do with ideologies.

Those who disagreed maintained that choosing the first Hong Kong chief executive is not a beauty contest. Appearance should not be one of the criteria, and as for age, in China's gerontocratic tradition, being older is no problem so long as the person is not ancient. As for sex, there are many female prime ministers in the world today, and to have a woman chief executive may add sex appeal. As for nationality, nothing is absolute. Take one time Beijing CPPCC vice chairman, Yunnan native Miao Yuntai [4924 7189 0669], for example. He became a U.S. citizen in the 1950's, but upon returning to China in the 1970's, he renounced his U.S. citizenship in the U.S. Embassy in Beijing and resumed his Chinese citizenship. It is that simple.

Eight, there was some difference in opinion regarding the candidates for the future SAR chief executive position. One view suggested that almost all the candidates have come forward by now and are actively making preparations, including public opinion preparation, because to make oneself acceptable, one must first test the water. The CPC's Hong Kong and Macao Affairs Office probably is considering and listing possible candidates to see who has the edge and is taking the time to observe and nurture its candidate. Meanwhile, those who specialize in currying favors have already started their race and are busy making friends with the rich and powerful to create favorable conditions for themselves. There is also another view which suggests that it is still early and that the CPC could not have started working on this matter because, according to its timetable, the matter does not get on the agenda until 1996.

Nine, someone suggested that if we look at the turn of events in Eastern Europe, in some cases nobody was ideologically prepared for some leaders, such as Czech playwright Havel, who eventually emerged as leaders because their political platforms were in line with the people's wishes and therefore were supported by the people. In other countries, those who have risen to power were virtual unknowns, and it is all but a matter of chance that they have become leaders. There are six more years before Hong Kong will be returned to China. What will happen in these six years will be anybody's guess. It depends on the global macroclimate, China's microclimate, and Hong Kong's climate.

Ten, we can say with certainty that two types of people have no chance of becoming the SAR's first chief executive: The first type is a member of the democratic faction, such as Martin Lee Chu-ming [2621 2691 6900], Szeto Wah [0674 1778 5478], and Lau Chin-shek [0491 0578 4258], because the CPC will certainly object. The other type is a member of the right wing and has close ties to Taiwan's KMT, the United States, or Japan. The CPC will not find this type acceptable either. Another group, the obvious leftists and the yes-men who echo the mainland's extreme leftist line, will be rejected by Deng Xiaoping himself; however, the likes of Li Peng and Wang Zhenzhi [3769 7201 0037] may appreciate them.

Lo Tak-shing [5012 1795 0015] may have connections, but he is not well-liked in Hong Kong. Everybody knows that Lo comes from a prominent Hong Kong family and has deep historical ties with the colonial government and was once a member of the Legislative Council and of the Executive Council. Looking back at Lo Tak-shing's track record since the Sino-British negotiations over Hong Kong, first he criticized Britain for selling out Hong Kong, then he organized the "Exit" and set up a way for the Hong Kong people to get out of Hong Kong. However, he later edged closer to and eventually closed ranks with the CPC and even traveled to Beijing to put on the show, "Zhang Song Offering the Map." Not only are the British puzzled, but even the Chinese are wondering, "What made this man take this 180-degree turn?" "He who understands the times is a wise man," or is he acting

out of personal interests? If he can ignore the three generations of friendship he and his family had with the British, can he really share a "common language" with the CPC?

Hong Kong newspapers have already pointed out that Lo Tak-shing was "the first man from Hong Kong to go to Beijing after 4 June and was personally received by Li Peng. He has close ties with Lu Ping [7627 1627], and after a meeting in Guangzhou, the two toured Shaoxing's Qixingyan together. During Ji Pengfei [1213 7720 7378] and Lu Ping's recent visit to Hong Kong, they invited Lo and Lee Kwok-po [2621 0948 1405] to XINHUA's Stanley villa as soon as they arrived. The matter of the Airport Management Bureau was also an idea given to Lu Ping by Lo." (See Chang Li's [1728 4539] special column in XIN PAO [HONG KONG ECONOMIC JOURNAL MONTHLY].)

Lo Tak-shing not only wines and dines and rubs elbow with high-ranking officials in the Hong Kong and Macao Affairs Office in Beijing, but when Mrs. Ji Pengfei came to Hong Kong, he also sent someone to accompany her on shopping trips and even played mahjong with her. Their friendly relationship is evident. Lo not only speaks the same language as the Beijing officials in the Hong Kong and Macao Affairs Office but gets along well with the big shots stationed in Hong Kong—first Xu Jiataun [6079 1367 0937], and now Zhou Nan [0719 0589]. A reporter said he saw Lo Tak-shing and Zhou Nan taking a leisurely stroll together at Victoria Peak, having a good time.

Looking at Lo's relationship with China, apparently "every road is a thoroughfare," and one cannot blame the Hong Kong people for wondering: Can we trust this man to represent the interests of the Hong Kong people?

To some Hong Kong people, Lee Kwok-po so far is the most likely candidate to become the SAR's first chief executive:

One, Lee Kwok-po comes from a prominent Hong Kong family. One can say that he was raised on Hong Kong's milk or that he and Hong Kong's modernization grew up together.

Two, Lee had a very good university education and is a well-trained professional.

Three, Lee runs the Bank of East Asia and is highly successful, proving that he has superb management skills.

Four, Lee is an energetic but reserved man who does not like to show off, even less to attract undue attention.

Five, Lee not only has the experience of having been a member of both councils, but when the Hong Kong Basic Law Drafting Committee was organized, he was immediately appointed vice chairman. This reflects the weight he carries around the CPC.

A friend of mine worked with Lee Kwok-po on the Hong Kong Basic Law, and when I asked him whether he thought Lee would make a good candidate for chief executive, he said, "We worked together on the Basic Law for several years, but I have never heard him say anything because he does not speak Putonghua. He received an English education, and if he should become the chief executive, he cannot very well count on having an interpreter around when talking to Beijing, can he?"

However, in my opinion, the language barrier is one thing, but more important is the ideological obstacle. There is no doubt that Lee loves Hong Kong. Can he love a People's Republic of China where policies change all the time and political movements are frequent? Does he have the guts and the nerve to deal with the Beijing leaders who are bent on upholding the four principles?

I am afraid this is where Lee Kwok-po's problem lies.

When my student Lao Guan-hsiang suggested that Hong Kong's chief executive should be a man, Chang Jie-feng objected right away. Why not a woman? She feels that Lydia Dunn is worth considering and is a likely candidate. Lao Guan-hsiang suggests that Dunn is a British citizen and is a member of Britain's House of Lords, and those points alone will disqualify her as a candidate. I immediately cited my fellow Yunnan native Miao Yuntai as an example. In order to serve China, Miao formally gave up his U.S. citizenship. Why cannot Lydia Dunn give up her British citizenship? If she is determined to become Hong Kong's first chief executive, if the CPC agrees, and if the citizenship question is the only question left, then it can be resolved easily.

What is so special about Lydia Dunn is that she is neither overbearing nor servile when dealing with the CPC officials. For example, take the time she and Sir Chung Sze-yun [6945 1102 0337] went to Beijing to meet with Deng Xiaoping during the Sino-British negotiations. Talking with reporters afterwards, she stated plainly, "We explained to them that it is not that the Hong Kong people are not proud of their Chinese heritage, but they are worried because there are historical reasons. A meeting between the two sides gave us the chance to explain things face to face." As Hong Kong's chief executive in the future, the most important thing is to make known Hong Kong people's worries and concerns. What is unique about Lydia Dunn is, she always "speaks the truth, no matter whether it is to the British or to the Chinese," which is indeed commendable.

When discussing the matter of chief executive for the future SAR with the young reporters, two of them mentioned Chan Cho-chak [7115 4371 3419]. They indicated that if the future candidate is to be picked from among the current Hong Kong government officials, Chan Cho-chak will be an ideal candidate.

Chan Cho-chak is the former deputy chief secretary and is currently the secretary of industry and commerce. He is among the few high-ranking Chinese officials in the Hong Kong government trusted with confidential and

important matters, and he is a very capable man. His motto is "never allow personal life to interfere with official business." This demonstrates a political style that separates what is public from what is private. That the government should serve the public is his personal belief.

Some people may think that Chan's background of loyal service to the British colonial government will make him unacceptable to the CPC, but history proved that any government would welcome an honest, hard-working, responsible man. There are many examples of this. During the Three Kingdoms, Chen Lin was highly respected when he was serving Yuan Shao, but after he joined Cao Cao, he continued to give play to his great talents.

Chan Cho-chak's personal knowledge and assessment of Hong Kong also prove that he is qualified to be Hong Kong's first chief executive. He once said, "I have been to many places and have made comparisons, and I feel very deeply that each of these places has something that is better than Hong Kong (such as living environment), but taken as a whole, there is no place better than Hong Kong anywhere in the world." (See the special interview in MING PAO 19 Dec 1990.)

Based on this knowledge of Hong Kong alone, if Chan indeed has the opportunity to become Hong Kong's first chief executive, he will no doubt work cautiously and conscientiously to maintain Hong Kong's prosperity and stability.

It seems most Hong Kong people like Chan and have a high opinion of him. As for whether Beijing feels the same way, it is hard to say.

When shares of Hsu Chan-tang's [1776 1455 1016] Chung Wah Paint Factory went on the market, subscriptions were 152 times the number of available shares. As an insider put it, this is not confidence in Chung Wah Paint Factory but confidence in Hsu Chan-tang.

Hsu Chan-tang founded the Xu's Art Gallery in Hong Kong which has put precious art work, especially magnificent ceramics from the Yin-Zhou period to the Ming-Qing period, on exhibit. When many are slipping away or fleeing in the face of 1997, Hsu did the opposite. His action speaks louder than words: "I have decided to stay."

According to friends who are close to Deng Xiaoping's children, Deng once asked Yang Shangkun how much Hsu Chan-tang's private art museum in Hong Kong was worth, and Yang said that he had heard that it was worth a billion Hong Kong dollars, and Deng blurted out, "Not bad!" This of course refers to Hsu's confidence in Hong Kong's future, and such confidence no doubt will produce a chain reaction in Hong Kong.

Hsu belongs to Hong Kong's nouveau generation. His career took off at the same time Hong Kong's economy began to take off. He is unique in that after he makes his

money, he looks around to find ways to pay back society. His founding of the Hsu's Art Gallery in Hong Kong is one example. He also donated \$1.25 million pounds to open a similar Hsu's Art Gallery in London to display Chinese cultural relics which the British had obtained in China. This is another example of how to promote international exchange and show off Chinese culture at the same time.

It looks like Hsu Chan-tang has his foothold in Hong Kong but has the whole world in view. He has planted flowers in China, Britain, and Hong Kong and is creating an auspicious and harmonious atmosphere for the future Hong Kong.

If this were a game of chess, Hsu might be playing a leisurely game which had nothing to do with politics. However, the time will come when people will make their choice of Hong Kong's first chief executive based on the person's contributions to society, and then Hsu may become a hot ticket.

In addition, when it comes to loving China, Hsu has an edge over Lee Kwok-po and Chan Cho-Chak. There is no doubt about it. Hsu grew up in the mainland and has deep feelings about the mainland. His contacts with China in recent years not only has made him understand China better, but has made China understand him better as a person.

Among the possible candidates for Hong Kong's first chief executive, Liang Chen-ying [2733 6966 5391] is the

youngest. The 37-year-old Liang will only be 43 in 1997. If indeed he is elected, he will rival John Kennedy.

When interviewed by MING PAO reporter Lin Tsui-fen [2651 5050 5358] in April 1987, Liang Chen-ying said that it was his belief that mainland China should have no trouble becoming relatively well-off within 30 years, but he neglected to qualify his statement and add this: if there is no more reversal of policies and if there is no more back and forth restructuring.

Liang has more than sufficient confidence in China, but he appears to lack an understanding of and a confidence in the Hong Kong people. He once criticized, "Where else in the world will you find people like the Hong Kong people who are so eager and proud to give up their own nationality? This is the 'fatal acupoint' in the Hong Kong people's ability to survive. In the event of a catastrophe, will the rootless Hong Kong people be able to unite and weather the hard times together?" (See "Liang Chen-ying on Hong Kong's Future," MING PAO 14 Apr 1987.)

After the trials and tribulations of the 1989 prodemocracy movement, 1.5 million Hong Kong people took to the streets. On the second anniversary of 4 June in 1991, the prodemocracy movement had sunk to a low ebb, but when the Hong Kong Alliance organized a candlelight vigil, 80,000 Hong Kong people showed up. After witnessing all these, perhaps Liang Chen-ying should revise his assessment of the people of Hong Kong.

"The fatal acupoint' in the Hong Kong people's ability to survive" may turn out to be, to a certain extent, a "new lease on life." [passage omitted]

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